U.S. Treasury Dept.
Press releases.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

213-075
Treasury

FOR IMMEDIATE RELEASE
FRIDAY, AUGUST 1, 1975
CONTACT: PRISCILLA R. CRANE (202) 634-5248

A new reference book issued today by the Office of Revenue Sharing lists each state and local government's share of the over $20 billion the office has distributed since 1972. Fiscal year 1976 estimated allocations to more than 38,000 recipient governments are shown as well.

The figures are presented in such a way as to enable the reader to compare amounts by jurisdiction from one payment period to another.

The document is entitled Payment Summary: Entitlement Periods 1 through 5 with Period 6 Estimate. "Its publication is part of an ongoing effort to keep the public fully informed about all aspects of the program," said Graham W. Watt, Director of the Office of Revenue Sharing.

"From the beginning of the General Revenue Sharing program, it has been our practice to publish all data, payment amounts, and descriptions of procedures for public use and review," Watt stated.

Copies of the publication may be obtained from the Government Printing Office. Reference copies are available in the Treasury Department's Library at 15th and Pennsylvania Avenue, and at the Office of Revenue Sharing, 2401 E. Street, N.W., Washington, D. C.

The figures published include any adjustments to initial allocations that were made at the end of each of the first five entitlement periods as a result of improvements to the data used to calculate individual governments' amounts. Each year, the Office of Revenue Sharing invites each recipient government to review and propose improvements to its own data on population, per capita income and tax effort. These numbers are used to allocate shared revenues for all governments.

The State and Local Fiscal Assistance Act of 1972 (P.L. 92-512) authorizes the distribution of $30.2 billion over five years ending in December 1976. President Ford has proposed to Congress that the program be renewed through September, 1982.

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REMARKS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
AT THE BICENTENNIAL DEDICATION
OF THE CUSTOMHOUSE IN NEW YORK
NEW YORK CITY, AUGUST 1, 1975

MAYOR BEAME, DISTINGUISHED GUESTS, MEMBERS OF THE TREASURY DEPARTMENT, AND FELLOW CITIZENS:

IT IS WITH A DEEP SENSE OF AWE THAT I SPEAK TO YOU FROM THESE STEPS TODAY.

IF YOU WILL PAUSE FOR A MOMENT TO REFLECT UPON OUR HISTORY AS A NATION, YOU WILL SOON REALIZE THAT THERE ARE PERHAPS A HALF-DOZEN SITES ALONG THE EASTERN SEABOARD WHERE ONE CAN BREATHE DEEPLY OF OUR EARLY EXPERIENCES AS AMERICANS -- HISTORIC SITES THAT STIR THE HEART AND RECALL THE SPIRIT OF YESTERYEAR.

THINK, FOR INSTANCE, OF HOW MUCH OF THE AMERICAN STORY CAN BE TRACED BACK TO PLYMOUTH ROCK AND TO WILLIAMSBURG; HOW MUCH OF IT WAS WRITTEN IN BLOOD AT BUNKER HILL AND IN THE SNOW AT VALLEY FORGE; AND HOW FREEDOM TOOK ROOT AND FLOURISHED

AT INDEPENDENCE HALL AND IN THE NEW CAPITAL ALONG THE POTOMAC. EACH OF THOSE SITES IS HISTORIC, AND YET NONE OF THEM HAS PLAYED A MORE VITAL AND CONTINUING ROLE IN AMERICA'S GROWTH THAN THE GROUNDS WHERE WE GATHER TODAY AND THIS CUSTOMHOUSE THAT WE FORMALLY DEDICATE.

IT WAS HERE ON THIS SITE OVER 200 YEARS AGO, IN THE CITY HALL THAT ORIGINALLY OCCUPIED THESE GROUNDS, THAT JOHN PETER ZENGER WAS ACQUITTED FOR LIBEL, STRIKING THE FIRST BLOW FOR FREEDOM OF THE PRESS IN THE NEW WORLD.

IT WAS HERE THAT THE CONTINENTAL CONGRESS MET AND ISSUED ITS FAMOUS CHALLENGE TO THE ENGLISH PARLIAMENT, INSISTING THAT THE COLONIES WOULD NOT TOLERATE TAXATION WITHOUT REPRESENTATION.

IT WAS HERE, AFTER THE CITY HALL WAS RENOVATED AND RENAMED FEDERAL HALL, THAT THE FIRST CONGRESS OF THE UNITED STATES GATHERED IN 1789.

HERE GEORGE WASHINGTON WAS INAUGURATED AS OUR FIRST PRESIDENT.

HERE THE FIRST THREE EXECUTIVE DEPARTMENTS WERE ESTABLISHED -- STATE, WAR AND TREASURY -- AND THOMAS JEFFERSON, HENRY KNOX, AND ALEXANDER HAMILTON ENTERED THE FIRST CABINET.

HERE THE BILL OF RIGHTS WAS SENT BY THE CONGRESS TO THE STATES FOR RATIFICATION.

AND HERE, IN 1842, THE PRESENT BUILDING WAS COMPLETED AND BECAME ONE OF THE MOST FAMOUS CUSTOMHOUSES IN THE NATION. WITH AMERICAN TRADE RAPIDLY EXPANDING, THE CUSTOMS DEPARTMENT SOON OUTGREW THESE ACCOMMODATIONS AND MOVED A SHORT DISTANCE AWAY, SO THAT THIS BUILDING SERVED FOR MANY YEARS AS SUB-TREASURY OFFICE BEFORE IT WAS DESIGNATED AS A NATIONAL MONUMENT.

AS PART OF OUR BICENTENNIAL CELEBRATION, IT IS CERTAINLY FITTING THAT THE CUSTOMHOUSE AND THE U.S. CUSTOMS SERVICE ITSELF BE RECOGNIZED AS AN IMPORTANT PART OF OUR NATIONAL HERITAGE. THE CUSTOMS SERVICE WAS CREATED EVEN BEFORE THE TREASURY DEPARTMENT BECAUSE OF THE NEW GOVERNMENT'S DESPERATE NEED FOR FUNDS. AND FOR A CENTURY AND A HALF, IT PROVIDED THE FEDERAL GOVERNMENT WITH ITS PRINCIPAL SOURCE OF REVENUE -- UNTIL, OF COURSE, SOMEONE DECIDED THAT THE GOVERNMENT COULD SPEND EVEN MORE MONEY IF IT ALSO TAXED YOUR INCOME. TODAY THE CUSTOMS SERVICE PROVIDES ONLY A SMALL PORTION OF GOVERNMENT REVENUES, BUT IT REMAINS AN ESSENTIAL ARM OF THE FEDERAL ESTABLISHMENT, AND WE ARE PROUD OF ITS COMMISSIONER, VERNON ACREE, AS WELL AS THE THOUSANDS OF DEDICATED CIVIL SERVANTS WHO FILL ITS RANKS.

IT IS ALSO FITTING, I WOULD SUGGEST, THAT THE BUILDING WE DEDICATE TODAY -- THIS SYMBOL OF OUR FREEDOM AND

INDEPENDENCE -- IS NESTLED HERE AMONG THE LOFTY SPIRES OF COMMERCE AND FINANCE.

THROUGHOUT OUR HISTORY, FREEDOM AND COMMERCE HAVE BEEN CLOSELY INTERTWINED. EACH HAS GIVEN STRENGTH AND NOURISHED THE OTHER; NEITHER COULD HAVE SURVIVED WITHOUT THE SUPPORT OF THE OTHER.

INDEED, THE FREEDOM TO SEEK ONE'S FORTUNE WITHOUT FEAR OR FAVOR, THE FREEDOM TO BUY AND SELL IN OPEN MARKETS, THE FREEDOM TO BUILD A BETTER MOUSETRAP -- THESE ARE THE FOUNDATIONS OF OUR ECONOMIC SYSTEM.

AND IT IS THAT FREE ENTERPRISE SYSTEM, WE SHOULD REMEMBER, THAT HAS PROVIDED THIS NATION WITH THE GREATEST PROSPERITY AND THE HIGHEST STANDARD OF LIVING ANYWHERE IN THE WORLD.

AS WE SEEK AN UPWARD PATH OUT OF ECONOMIC RECESSION AND AS WE TRY TO CONQUER THE THREAT OF INFLATION, THERE WILL BE

CONTINUING TEMPTATIONS TO REPLACE OUR FREE ENTERPRISE SYSTEM WITH THE FORCES OF GOVERNMENTAL CONTROL. WE HAVE ALREADY DRIFTED FAR -- MUCH TOO FAR, IN MY OPINION -- TOWARD A CENTRALIZED ECONOMY IN THE UNITED STATES. WHEN THE STORY OF THIS ERA IS WRITTEN, IT WILL REVEAL, I BELIEVE, THAT MANY OF OUR CURRENT ECONOMIC TROUBLES CAN BE TRACED BACK TO THE RAPID GROWTH OF GOVERNMENTAL SPENDING AND REGULATION. OUR MOST CRITICAL ECONOMIC CHALLENGE OVER THE NEXT DECADE IS TO CORRECT THE BALANCE BETWEEN PRIVATE AND PUBLIC POWER AND TO RESTORE THE VIGOR OF OUR ECONOMIC SYSTEM.

DELVING BACK INTO HISTORY, ONE IS REMINDED TIME AND AGAIN OF HOW UNIQUE OUR EXPERIENCE IS AMONG THE FAMILY OF NATIONS AND HOW MUCH HUMAN HOPE IS INVESTED IN OUR EXPERIMENT AS A DEMOCRACY.

AS GEORGE WASHINGTON TOLD HIS FELLOW COUNTRYMEN IN THAT FIRST INAUGURAL ADDRESS DELIVERED HERE IN 1789:

"THE PRESERVATION OF THE SACRED FIRE OF LIBERTY, AND THE DESTINY OF THE REPUBLICAN MODEL OF GOVERNMENT, ARE JUSTLY CONSIDERED AS DEEPLY, PERHAPS AS FINALLY STAKED, ON THE EXPERIMENT ENTRUSTED TO THE HANDS OF THE AMERICAN PEOPLE."

LADIES AND GENTLEMEN, LIKE MANY OF YOU, I HAVE LABORED LONG HOURS IN THE VINEYARDS ON WALL STREET AND KNOW FULL WELL THE ENORMOUS TALENTS AND ENERGY THAT ARE CENTERED HERE. AS WE CELEBRATE THIS BICENTENNIAL, I WOULD MAKE A SPECIAL APPEAL THAT ALL OF US RENEW OUR COMMITMENT TO BUILDING AN AMERICA WHERE FREEDOM AND PROSPERITY MAY ONCE AGAIN FLOURISH TOGETHER. LET THIS FAMOUS OLD SITE HERE IN THE HEART OF OUR FINANCIAL COMMUNITY SERVE AS A REMINDER OF WHAT GREAT GOOD CAN BE ACCOMPLISHED WHEN THESE FORCES ARE UNITED AND AS A VISIBLE SYMBOL OF OUR CONTINUING COMMITMENT TO THEM IN THE FUTURE.

THANK YOU.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR IMMEDIATE RELEASE August 4, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.0 billion of 13-week Treasury bills and for $3.0 billion of 26-week Treasury bills, both series to be issued on August 7, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 6, 1975			26-week bills maturing February 5, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.384	6.393%	6.61%	96.564 a/	6.796%	7.16%
Low	98.365	6.468%	6.69%	96.524	6.876%	7.24%
Average	98.368	6.456%	6.67%	96.530	6.864%	7.23%

a/ Excepting 1 tender of $10,000

Tenders at the low price for the 13-week bills were allotted 40%.
Tenders at the low price for the 26-week bills were allotted 59%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 59,580,000	$ 34,100,000	$ 61,035,000	$ 24,985,000
New York	4,446,565,000	2,443,365,000	4,534,755,000	2,681,805,000
Philadelphia	93,625,000	48,755,000	35,695,000	10,590,000
Cleveland	86,345,000	47,070,000	168,550,000	65,915,000
Richmond	40,175,000	30,125,000	73,915,000	50,955,000
Atlanta	46,690,000	39,845,000	41,780,000	17,270,000
Chicago	338,775,000	165,745,000	275,745,000	43,535,000
St. Louis	50,630,000	31,380,000	33,425,000	17,015,000
Minneapolis	16,740,000	12,740,000	12,130,000	7,310,000
Kansas City	54,305,000	41,105,000	40,535,000	28,640,000
Dallas	45,095,000	27,095,000	43,830,000	15,830,000
San Francisco	314,225,000	79,025,000	183,505,000	36,255,000
TOTALS	$5,592,750,000	$3,000,350,000 b/	$5,504,900,000	$3,000,105,000 c/

b/ Includes $ 524,690,000 noncompetitive tenders from the public.
c/ Includes $ 251,465,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

ederal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

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FOR IMMEDIATE RELEASE August 4, 1975

SUMMARY OF LENDING ACTIVITY

July 14 - July 31, 1975

Federal Financing Bank lending activity for the period July 14 through July 31, 1975, was announced as follows by Roland H. Cook, Secretary:

The FFB made the following loans to telephone and electric utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Interest Rate	Maturity
July 15	Colorado-Ute Electric Association	$2.3 million	7.49%	7/15/77
July 15	Tri-State Generation & Transmission Assoc. (Kansas City, Mo.)	$3.9 million	8.28%	12/31/09
July 16	Cooperative Power Association (Minneapolis, Minn.)	$1.3 million	8.28%	12/31/09
July 21	South Mississippi Electric Power Assoc.	$3.8 million	7.65%	7/25/77
July 23	Leesport Telephone Co. Dallas, Pa.	$3.2 million	8.36%	12/31/09
July 23	United Power Assoc. Elk River, Minn.	$1.2 million	8.36%	12/31/09
July 31	Oglethorpe Elec. Membership Corp. (Georgia)	$1.7 million	7.89%	8/10/77

The above interest rates on the REA loans are quarterly rates.

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The Bank made the following advances to borrowers guaranteed by the Department of Defense under the Foreign Military Sales Act:

Date	Borrower	Amount	Interest Rate	Maturity
July 16	Government of Greece	$2.3 million	8.125%	3/1/85
July 16	Government of Greece	$15.0 million	8.125%	6/30/85

The United States Railway Association made two drawings against its line of credit with the Bank:

Date	Amount	Interest Rate	Maturity
July 17	$2.2 million	6.496%	8/25/75
July 31	$23.0 million	6.675%	8/25/75

On July 18, the Department of Health, Education and Welfare borrowed $4 million from the Bank under the Medical Facilities Loan Program. The interest rate is 8.31%, and the maturity is July 1, 1999.

AMTRAK, the National Railroad Passenger Corporation,made three drawings against its line of credit with the Bank:

Date	Amount	Interest Rate	Maturity
July 21	$4.0 million	6.471%	9/30/75
July 28	$13.5 million	6.596%	9/30/75
July 29	$12.5 million	6.602%	9/30/75

On July 23, the Bank purchased $3,760,000 of debentures from the following Small Business Investment Companies:

Company	Amount	Interest Rate	Maturity
Midland Capital Corp. New York, New York	$ 500,000	7.98%	7/1/78
Enterprise Capital Corp. Houston, Texas	200,000	8.16%	7/1/80
Alliance Business Investment Co., Tulsa, Oklahoma	400,000	8.23%	7/1/82
Enterprise Capital Corp. Houston, Texas	200,000	8.23%	7/1/82
Alliance Business Investment Co., Tulsa, Oklahoma	710,000	8.29%	7/1/85
Atlas Capital Corp., Boston, Massachusetts	150,000	8.29%	7/1/85

Company	Amount	Interest Rate	Maturity
Cascade Capital Corp., Portland, Oregon	$1,000,000	8.29%	7/1/85
Enterprise Capital Corp., Houston, Texas	200,000	8.29%	7/1/85
Northwest Small Business Investment Corp., Boston, Massachusetts	400,000	8.29%	7/1/85

The SBIC debentures are guaranteed by the Small Business Administration.

On July 31, the Student Loan Marketing Association (Sallie Mae) rolled over a $25 million loan maturing with the Bank. The interest rate is 6.55%. The loan matures on October 30, 1975.

On July 31, the FFB purchased a $200 million power bond from the Tennessee Valley Authority at 8.47% interest. The maturity is July 31, 2000. On the same day, TVA borrowed $120 million 92-day funds at 6.634% interest. Proceeds of the TVA loans were used to pay off $310 million maturing with the Bank.

Federal Financing Bank loans outstanding on July 31, 1975 total $13.9 billion.

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Department of the TREASURY NEWS
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FOR RELEASE AT 4:00 P.M. August 5, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,100,000,000 , or thereabouts, to be issued August 14, 1975, as follows:

91-day bills (to maturity date) in the amount of $3,000,000,000, or thereabouts, representing an additional amount of bills dated May 15, 1975, and to mature November 13, 1975 (CUSIP No. 912793 XX9), originally issued in the amount of $2,800,775,000, the additional and original bills to be freely interchangeable.

183-day bills, for $3,100,000,000, or thereabouts, to be dated August 14, 1975, and to mature February 13, 1976 (CUSIP No. 912793 YT7).

The bills will be issued for cash and in exchange for Treasury bills maturing August 14, 1975, outstanding in the amount of $5,304,165,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $3,157,485,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, August 11, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on August 14, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 14, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 3:30 P.M. August 6, 1975

TREASURY OFFERS $1.0 BILLION OF TREASURY BILLS

The Department of the Treasury, by this public notice, invites tenders for $1.0 billion of 18-day Treasury bills to be issued August 8, 1975, to mature August 26, 1975. The bills will be an additional issue of Treasury bills now outstanding dated August 27, 1974, due August 26, 1975 (CUSIP No. 912793 WS1).

The bills will be issued on a discount basis under competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received only at the Federal Reserve Bank of New York up to noon, Eastern Daylight Saving time, Thursday, August 7, 1975. Wire and telephone tenders may be received at the discretion of the Federal Reserve Bank of New York. Each tender must be for a minimum of $10,000,000. Tenders over $10,000,000 must be in multiples of $1,000,000. The price on tenders offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Settlement for accepted tenders in accordance with the bids must be made at the Federal Reserve Bank of New York on August 8, 1975, in immediately available funds.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE WO4-2041

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For information on submitting tenders: TELEPHONE WO4-2604

FOR RELEASE AT 3:30P.M. August 6, 1975

DETAILS OF TREASURY'S NOTE AUCTIONS

The notes to be auctioned to the public will be:

$2.0 billion of Treasury Notes of Series L-1977 dated August 29, 1975, due August 31, 1977 (CUSIP No. 912827 EV 0) with interest payable on February 29, 1976, August 31, 1976, February 28, 1977, and August 31, 1977, and

$2.0 billion of Treasury Notes of Series F-1979 dated September 4, 1975, due September 30, 1979 (CUSIP No. 912827 EW 8) with interest payable on March 31 and September 30.

The coupon rates will be determined after tenders are allotted.

Additional amounts of the notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

The 2-year notes will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000. The 4-year 1-month notes will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000, and $1,000,000. Both notes will be issued in book-entry form to designated bidders. Delivery of 2-year bearer notes will be made on August 29, 1975, and delivery of 4-year 1-month bearer notes will be made on September 4, 1975. Payment for the notes may not be made through tax and loan accounts.

Tenders for the 2-year notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Thursday, August 14, and tenders for the 4-year 1-month notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Thursday, August 21 at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than August 13 for the 2-year notes and August 20 for the 4-year 1-month notes. Each tender for the 2-year notes must be in the amount of $5,000 or a multiple thereof. Each tender for the 4-year 1-month notes must be in the amount of $1,000 or a multiple thereof. Each tender must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender.

Competitive tenders must be expressed in terms of annual yield in two decimal places, e.g., 7.11, and not in terms of a price. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the amounts offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined for each issue to the nearest 1/8 of 1 percent necessary to make the average accepted prices 100.000 or less. Those will be the rates of interest that will be paid on all of the securities of each issue. Based on such interest rates, the price on each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield he bid. Price calculations will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final. Tenders at a yield that will produce a price less than 99.501 for the 2-year notes and 99.001 for the 4-year 1-month notes will not be accepted. Noncompetitive bidders will be required to pay the average price of accepted competitive tenders; the price will be 100.000or less.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (Series L-1977 or Series F-1979)" should be printed at the bottom of envelopes in which tenders are submitted.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations noncompetitive tenders for $500,000 or less for each issue of notes will be accepted in full at the average price of accepted competitive tenders.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, may submit tenders for the account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of notes applied for. However, bidders who submit checks in payment on tenders submitted directly to a Federal Reserve Bank or the Treasury may find it necessary to submit full payment for the notes with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders for the 2-year notes must be completed on or before Friday, August 29, 1975. Payment for accepted tenders for the 4-year 1-month notes must be completed on Thursday, September 4, 1975. Payment must be in cash, in other funds immediately available to the Treasury by the payment date or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such Bank or at the Treasury no later than: (1) Tuesday, August 26, 1975, for the 2-year notes and Friday, August 29, 1975, for the 4-year 1-month notes if the check is drawn on a bank in the Federal Reserve District of the Bank to which the check is submitted, or the Fifth Federal Reserve District in case of the Treasury, or (2) Friday, August 22, 1975, for the 2-year notes and Wednesday, August 27, 1975, for the 4-year 1-month notes if the check is drawn on a bank in another district. Checks received after the dates set forth in the preceding sentence will not be accepted unless they are payable at a Federal Reserve Bank. Where full payment is not completed on time, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

August 6, 1975 19

RUSSELL L. MUNK NAMED
ASSISTANT GENERAL COUNSEL

Treasury Secretary William E. Simon announced today the appointment of Russell L. Munk as Assistant General Counsel. He succeeds Michael Bradfield who left the Department to enter private law practice.

Mr. Munk will provide legal advice to the Under Secretary (Monetary Affairs), the Assistant Secretary (International Affairs), the Assistant Secretary (Trade, Energy, and Financial Resources Policy Coordination), the Assistant Secretary (Economic Policy), and the Special Assistant to the Secretary (National Security).

He was born July 10, 1939 in Montpelier, Idaho. Prior to joining Treasury, he was Senior Counsel, Office of the General Counsel in the Asian Development Bank.

Mr. Munk was graduated from Harvard College in 1957 with an A.B. degree in government, cum laude. He attended the University of Utah College of Law. He received a J.D. degree from Harvard Law School in 1967.

Mr. Munk is married to the former Margaret Rampton of Salt Lake City, Utah. They have a daughter, Laura and a son, Daniel Ramon.

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Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE August 6, 1975

TREASURY FINANCING ANNOUNCEMENT

In order to meet the major part of its new money requirements through the first week of September, the Treasury Department will sell the following securities during the next two weeks to raise $6 billion in new cash:

(1) Up to $1.0 billion of an additional amount of bills dated August 27, 1974 which mature August 26, 1975, to be sold only through the Federal Reserve Bank of New York in minimum tenders of $10 million, on August 7 for payment August 8;

(2) Up to $2.0 billion of 2-year notes dated August 29, 1975 and maturing August 31, 1977;

(3) Up to $2.0 billion of 4-year 1-month notes dated September 4, 1975 and maturing September 30, 1979; and

(4) Up to $1.0 billion of 13- and 26-week bills in the regular weekly bill auction of August 18, 1975 in addition to the amount maturing on August 21.

The addition to the 52-week bills maturing on August 26, will increase the amount outstanding from $1.8 billion to $2.8 billion. It is anticipated that the whole $2.8 billion will be rolled over at maturity.

The 2-year Treasury note, due August 31, 1977, to be sold on August 14, will be an additional issue in the sequence of 2-year cycle notes.

The 4-year 1-month note, due September 30, 1979, will be sold on August 21 and will be the second 4-year cycle note to be issued by the Treasury.

$6.3 billion of 13- and 26-week bills will be auctioned on August 18, for payment on August 21, to refund $5.3 billion of maturing weekly bills and to raise $1.0 billion of new money.

Details of the note offerings and the special offering of additional bills maturing August 26 are contained in separate announcements issued today. Details of the regular bill auction of August 18 will be announced in the usual form next week.

Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE August 7, 1975

RESULTS OF AUCTION OF $1.0 BILLION
OF 18-DAY TREASURY BILLS

The Treasury has accepted $1.0 billion of the $6.7 billion of tenders received for the 18-day Treasury bills to be issued August 8, 1975, and to mature August 26, 1975, auctioned today. The range of accepted bids was as follows:

	Price	Discount Rate	Investment Rate
High	99.691	6.180%	6.30%
Low	99.684	6.320%	6.45%
Average	99.686	6.280%	6.40%

Tenders at the low price were allotted 69%.

UNITED STATES DEPARTMENT OF THE TREASURY

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Room 4121 Treasury Building
15th & Pennsylvania Ave. N.W.
Washington, D.C.

FRIDAY, August 8, 1975
12:00 m.

PRESS BRIEFING

-- by --

DAVID R. MACDONALD
Assistant Secretary
ENFORCEMENT OPERATIONS AND TARIFF AFFAIRS

-- on --

TREASURY INITIATION OF INVESTIGATION INTO
ALLEGED DUMPING OF IMPORTED AUTOMOBILES

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PARTICIPANTS:-

PETER SUCHMAN,
Deputy Director for Tariff Affairs

LYNN BARDEN,
General Counsel's Office

and

MEMBERS OF THE PRESS

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INTRODUCTION BY:

CHARLES ARNOLD
Office of Public Affairs

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MR. ARNOLD: Ladies and gentlemen: We are ready to start.

The deal is that at 12:16, the wires are free to go!

SECRETARY MACDONALD: Thanks very much for putting up with a slight delay in this press conference.

My name is David Macdonald. I am Assistant Secretary for Enforcement Operations and Tariff Affairs of the Treasury Department.

On my right is Peter Suchman, Deputy for Tariff Affairs.

On my left is Lynn Barden from our General Counsel's Office.

The Treasury Department, yesterday, determined to initiate a formal investigation into alleged dumping of automobiles from eight Countries. The eight Countries are:

West Germany;

United Kingdom;

France;

Belgium;

Italy;

Sweden;

Japan and

Canada.

As you may know, there are two facets to a

Dumping investigation. The Treasury Department determines whether sales are being made at less-than-fair-value, and this determination must be made within six months or--in complicated cases--within nine months.

If a positive determination is made in that respect by the Treasury Department, the case is referred to the U. S. International Trade Commission -- formerly the Tariff Commission -- which then determines whether U.S. Industry has been--or is likely to be--injured by reason of the sales at less than fair value.

As a result of the enactment of the Trade Act of 1974, there is a new procedure which has been legislated, whereby--if the Treasury Department has "substantial doubt" that the sales at less than fair value are a cause of the injury--the Treasury Department can refer it, immediately, over to the U.S. International Trade Commission for a preliminary look-see to determine whether that doubt can be resolved.

In this particular case, we have substantial doubt that the alleged sales-at-less-than-fair-value are, indeed, a cause of injury to the U.S. Industry, and we have that doubt because automobile company officials have stated that the drop in domestic sales that has occurred with respect to the Domestic Industry has not been caused by imports.

We think, therefore, that the U.S. International Trade Commission should take a preliminary look to determine whether or not there is "no likelihood"--"No reasonable indication" -- I should say -- of injury.

If they find that there is no reasonable indication of injury in thirty days, we will drop our Complaint.

In the meantime, however, we will proceed just as though we had not even referred referred it over to the United States International Trade Commission.

We transmitted a letter to the International Trade Commission last night. We are not releasing that letter. They may release it.

Incidentally, if they determine that they cannot find that there is no reasonable indication of no injury then we proceed through our six or nine month period. If we then find sales-at-less-than-fair-value, we will send it over to the International Trade Commission again -- this time, for a full Injury Investigation which they have to complete within another three months.

At the time we send it over to the International Trade Commission or, possibly, in one case before we do so, we begin withholding appraisement on all injuries. That means that we do not liquidate the injury so that--if actual injury is found--we can later go back and assess dumping duties against the imports.

If the International Trade Commission finds positively, the result is that a Dumping Order is entered and every injury, from the time of the withholding of appraisement, is then re-assessed and dumping duties, if any, are imposed on the import. The size of those dumping duties is equal to the price discrimination found between sales by the foreign manufacturer in its own Country, and the export sales to the United States.

As you can imagine, this is a complex factual investigation that requires a number of adjustments to be made to raw wholesale prices but, basically, the concept of the Dumping Act is that price discrimination on an international basis as well as on a domestic basis is an unfair method of competition and should not be tolerated except where no injury exists.

As a result, the theory of the Act is to compare the sales of cars--both domestically and for export--on a mill-net basis, back to the foreign factory.

Now, there are several things involved in this initiation of an investigation that I want to get over very clearly, if I may -- several things that are <u>not</u> true.

No. 1: This procedure -- when a valid complaint is filed -- is mandatory. We must initiate the investigation! This is not a discretionary thing with the Secretary of the Treasury or the Treasury Department!

No. 2: The procedure is fully consistent with U.S. International obligations, and with our own Anti-

Dumping law.

Finally, this procedure does not -- repeat, not -- evidence--on the part of the United States--an intent to adopt a protectionist posture with respect to its foreign trading partners.

Questions. Yes, sir:

MEMBER OF THE PRESS: Who made the complaint?

SECRETARY MACDONALD: There were two complaints filed. One was made by Congressman John Dent of Pennsylvania, and one was filed by the United Auto Workers. The United Auto Workers' complaint was limited to three Countries: Italy, Germany, and the U.K.

Yes, sir:

MEMBER OF THE PRESS: As I recall it, Belgium was not in the original complaint?

SECRETARY MACDONALD: It was in the original complaint of Congressman Dent.

MEMBER OF THE PRESS: In that connection, Mr. Macdonald, the Common Market reportedly has said that only complaints from the Industry are valid complaints.

What is the answer to that?

SECRETARY MACDONALD: The answer to that is a two-fold one. In the first place, the International Anti-Dumping Code provides that normally, an investigation will be commenced upon the filing of a complaint which, obviously, indicates that it <u>can</u> be filed without <u>any</u> complaint in a particular case. So that that argument is not valid.

Moreover, our own law and regulations require a filing "on behalf" of an Industry.

We feel that that entitles anyone who purports to be acting "on behalf" of an Industry to file a complaint and, in fact, past complaints have been filed--under the Dumping Laws-- not by the manufacturers, as such, but (1) by Congressmen -- namely: (in the matter of) pig iron from several Countries filed by Congressman Dulski, several years ago; and (2) by a Union -- namely: potash from Canada; and fur felt hat bodies from Czechoslovakia.

MEMBER OF THE PRESS: Mr. Macdonald, some Washington "Anti-Dumping" lawyers feel that Treasury's "case" is very weak, because the Trade Act of '74 gives parties claiming anti-dumping the remedy of going against a decision of the Treasury. And then the Trade Act stipulates that only manufacturers, wholesalers, or other firms, have that right to go to Court and fight a Decision of the Treasury not to initiate Anti-Dumping.

Now, they also say -- concluding from that -- that the Trade Act gives through the Adjustment Provision-- the function of helping workers, Unions -- the Labor side -- through the Adjustment Provision of the Trade Act; and the Congress did, indeed, intend to give the manufacturers -- but <u>only</u> to manufacturers -- the remedy of instigating

Dumping cases.

SECRETARY MACDONALD: I am aware of the argument

We don't believe that argument has merit. In order for it to have merit you would have to argue the mutual exclusivity, in the first place, of adjustment assistance in Anti Dumping.

Moreover, you have to argue that the Congress in 1974, when it passed the Trade Act of '74 intended to limit what was otherwise a broader capacity for complaint.

Having lived through a good part of the legislative history of the enactment of the Trade Act of 1974, and having read the reports on it, I find no such intention evidenced.

MEMBER OF THE PRESS: Under the regulations, if someone made a complaint about alleged dumping and you thought the complaint was patently ridiculous, would you have to do this same thing?

SECRETARY MACDONALD: No. We look at the validity of the complaint, and we also look at the identity of the complainant, but he is addressing himself to the indemnification of the complainant--not the merits.

MEMBER OF THE PRESS: I am a little unclear about your statement. You say Treasury has substantial doubt?

SECRETARY MACDONALD: As to injury; not as to sales at less than fair value. We investigate sales at less than fair value.

Now, you say we haven't got substantial doubt as to sales of less than fair value. At the end of the 30-day period in which Customs has made what you might call an "in house" -- well, not just an "in house", but checks- - preliminary verifications--of more or less raw, unadjusted data, and has recommended to us--and we have adopted that recommendation--that this investigation be informally initiated.

MEMBER OF THE PRESS: Would you state that in more direct terms?

SECRETARY MACDONALD: Incidentally -- yes, that is a good point! Is there anyone here who feels that we have made a determination that sales of less than fair value exist?

If you do, please: you are wrong!

We are now about to initiate the investigation to make that determination--at which time all parties will have plenty of chance to answer.

MEMBER OF THE PRESS: How far back will this investigation go?

Over what calendar period will you make your determination?

SECRETARY MACDONALD: I think the complaint relates to the last two years but, normally, the investigation would be for the six-month period -- straddling the filing of the complaint which was filed on July 8.

MEMBER OF THE PRESS: Mr. Secretary, will you detail your complaint against Canada?

What specific areas and firms will you be investigating?

SECRETARY MACDONALD: We investigate on a Country by Country basis so, whenever a Complaint is filed against a particular manufacturer in a Country, we initiate an investigation relating to all manufacturers within that Country. We will investigate all products that are being exported.

MEMBER OF THE PRESS: Which manufacturer was complained against originally?

SECRETARY MACDONALD: A multitude of them. The Complaint actually, is a Public Document of Events.

MEMBER OF THE PRESS: Have you made a potential estimate as to the dollar volume involved here?

SECRETARY MACDONALD: Yes.

MEMBER OF THE PRESS: What is that?

SECRETARY MACDONALD: $7.5 billion.

MEMBER OF THE PRESS: $7.5 billion in sales at, allegedly, less than fair value?

SECRETARY MACDONALD: No. No! No! That is the total amount of trade involved.

MEMBER OF THE PRESS: In calendar '74?

SECRETARY MACDONALD: Yes.

MEMBER OF THE PRESS: Imports?

SECRETARY MACDONALD: Yes.

MEMBER OF THE PRESS: I understand the White House asked you to delay this conference in order to give the European Exchange a chance to close.

Is that true?

Do you feel this is going to have a negative impact on your trading partners, regardless?

SECRETARY MACDONALD: Let's just say we ran into an Administrative snag!

MR. ARNOLD: It is time for the Wires to go!

All right. Go!

(At this point, Wire Service representatives left the press briefing.)

MEMBER OF THE PRESS: Mr. Macdonald, did you say--in your opening statement--that you will drop the whole investigation if the International Trade Commission substantiates your doubts -- that there is no injury?

SECRETARY MACDONALD: We have a slightly different test than they have. Our test is: If we have substantial doubt as to injury, we will send it over there. Their test is: If there is no reasonable indication of injury after they make a 30-day quick investigation, then they would advise us of that fact, and we would drop the whole thing.

MEMBER OF THE PRESS: The whole thing?

SECRETARY MACDONALD: Absolutely!

MEMBER OF THE PRESS: You don't even want to know if there is dumping, or not?

SECRETARY MACDONALD: It would not be relevant because there would be no injury. Both requirements are necessary before dumping duties can be assessed.

MEMBER OF THE PRESS: On the question of Canadian imports, the Canadian Auto Pact -- does it not -- seems to treat all North American autos as practically under one umbrella--and many U.S. companies are, at least, involved.

How would that be resolved?

SECRETARY MACDONALD: It makes certain imports and exports duty-free. It does not purport to amend our -- what you might call -- Unfair Trade Laws, including the Anti-Dumping Act.

MEMBER OF THE PRESS: But it does recognize the fact that many Canadian companies are, in fact, subsidiaries of American companies?

SECRETARY MACDONALD: That is sort of -- I would not want to quibble with that--but it has certain results of excluding from duties--certain shipments.

MEMBER OF THE PRESS: If that is the situation, then you have U.S. versus German companies--or Japanese companies.

SECRETARY MACDONALD: I don't think your conclusion is accurate. I don't think that is a recognition that I would make.

MEMBER OF THE PRESS: Mr. Macdonald, can I get back to my earlier question to you?

Would you explain why Congress, when they wrote the provisions in the Trade Act as to the remedy for the decision of the Treasury, why they did not include Unions?

They included manufacturers; they included wholesalers.

SECRETARY MACDONALD: Okay. This is an extremely technical point. When you are going up on appeal, you are in a "judicial" posture. We are now in an "investigative" posture. When you are in a judicial posture, you have a classical Anglo Saxon concept of "parties in interest". Apparently, Congress wanted to expand -- which they did -- the number of parties in interest to take appeals from Dumping determinations. They expanded it.

MEMBER OF THE PRESS: Not to the Unions.

SECRETARY MACDONALD: Okay. On appeals at the original-investigation posture--as far as I am aware--there was no change at all made in the law. They are two separate animals. In fact, the Treasury Department, under our own law, can investigate and initiate an investigation without any complaint at all!

MEMBER OF THE PRESS: I want to be perfectly clear that, when you are naming Countries, you are including all of the manufacturers within the Country. For example, you are including Ford and G.M. within Germany; G.M. in Belgium.

SECRETARY MACDONALD: Yes. Exactly.

MEMBER OF THE PRESS: Mr. Macdonald, doesn't the fact of floating exchange rates alter the nature of dumping, and complicate the investigation of dumping?

As an example, if the Mark goes down and Volkswagen--just because it cannot change its price every day--keeps its price stable: for a while, it is less than the home market value but, really, without an intent to dump.

Do you understand the point?

SECRETARY MACDONALD: Yes.

I would say that it does complicate the investigation. And I would say that if it turns out that exchange rates are the only cause of a sale at less than fair value, we have sufficient discretion to go to a termination procedure, after we have made our investigation -- if that can be isolated as the cause.

MEMBER OF THE PRESS: What inputs have you received from the State Department, if any?

SECRETARY MACDONALD: Well, we have been approached by numerous foreign Governments and, of course, all of the representatives of the foreign -- I should not say all -- but a substantial number of representatives of foreign automobile companies who pointed out some of the things that have been pointed out here today by some of you gentlemen, and have--further--indicated political ramifications that are involved in a decision of this sort.

The State Department, of course, is the channel through which a lot of that comes. We have taken cognizance of those "Aid memoires" and have advised those Countries that we are -- at the Treasury Department -- entrusted with administering a law--and it is rather a specific law-- and the investigation that is involved is a rather specific factual investigation and we, at the Treasury Department, intend to operate under the law.

MEMBER OF THE PRESS: Has Ambassador Dent's office also given inputs, so far as this relates to the multi-lateral trade talks in Geneva?

SECRETARY MACDONALD: We have kept him fully advised I could not answer, really, "Yes" to that question.

MEMBER OF THE PRESS: Has Canada put any input into your investigation at this point?

SECRETARY MACDONALD: We have talked with Canada.

MEMBER OF THE PRESS: Along what lines?

Does Canada claim the Auto Pact is in point on this?

SECRETARY MACDONALD: I am advised--by Counsel here--that the Auto Pact specifically excludes the Anti-Dumping Act.

MEMBER OF THE PRESS: What has Canada said to you?

SECRETARY MACDONALD: Pretty much the same thing that I just summarized with respect to most foreign Countries.

MEMBER OF THE PRESS: Mr. Macdonald, would you endorse the theory that after the United States adopted the International Anti Dumping Code, that, based on the legislative experience, there has been a sort of liberalization of the cases -- the number of "Injury" findings -- compared to the time before '67?

Would you endorse that theory that there were relatively more Injury findings by the I.T.C., or the then-Tariff Commission, than before?

SECRETARY MACDONALD: I think that is something you really ought to address to the Tariff Commission. I could not "endorse" it--I am not saying it is wrong.

MEMBER OF THE PRESS: Before proceeding to Japan in your list of Countries, did you get more data than existed in the (Congressman) Dent or the U.A.W. Complaints?

They were fairly polite, I think, or non-existent, on the price table for Japan.

SECRETARY MACDONALD: The answer -- the simple answer -- to your question is, "Yes". We got more data. There were some peculiarities involved in the Japanese situation which were taken into account.

MEMBER OF THE PRESS: Was there any reaction from the U.K. government?

SECRETARY MACDONALD: Absolutely!

(Laughter)

MEMBER OF THE PRESS: What sort of reaction?

SECRETARY MACDONALD: Well, the same matter -- I think if you don't understand the fact that we have a Statute that says, "You <u>will</u> commence a 30-day inquiry period. At the end of 30 days, if you find some verification and reason to proceed with an investigation, you <u>will</u> investigate," -- if you don't understand that concept, and you look at it as a purely political matter, you can draw all sorts of conclusions as to the U.S. intention. But the reason that I am sitting here as an Assistant Secretary -- not Secretary Simon, or someone else--is an indication that we are proceeding with this matter as we have proceeded with all of our other matters.

MEMBER OF THE PRESS: What is the British Government's understanding?

SECRETARY MACDONALD: I think the British Government understands that. They are extremely competent, in my view.

MEMBER OF THE PRESS: You mentioned -- there has been testimony -- you talked with U.S. auto producers who said there was no injury--or that they had doubt?

SECRETARY MACDONALD: There was no injury, yes.

I don't want to paraphrase -- William Eberly, President of the Motor Vehicles Association said, "The drop in domestic sales and the rise in unemployment have not been caused by the import of motor vehicles in the United States-- as such."

MEMBER OF THE PRESS: Did you speak to G.M.?

To Ford?

If so, to whom?

SECRETARY MACDONALD: No. That really is a determination. The injury determination is really a determination to be made by the U.S.I.T.C. We make the "sales at less than fair value" judgement.

What we do is, having said that, of course, we have to, in our own minds, determine: "Is there something peculiar about this case that should cause us to send it over for a particular determination?"

We felt that statements of the sort that I have just quoted, yes. Yes. They go beyond the threshhold of creating substantial doubt.

MEMBER OF THE PRESS: Is it unusual to ask the I.T.C. to do the 30-day preliminary injury study at this point?

SECRETARY MACDONALD: This is the second time we have done it since the enactment of the Trade Act.

MEMBER OF THE PRESS: Would you state, yourself --

maybe other people understand it --

ANOTHER MEMBER OF THE PRESS: What was the first time?

SECRETARY MACDONALD: Neoprene rubber from Japan. They sent it back and said, "Go ahead with the investigation."

MEMBER OF THE PRESS: Would you re-state yourself? Maybe other people understand it better than I do; but you state yourself in a negative sense, as to what you are doing here -- that there is a "doubt", and you are, still, sending it over?

Do you make it absolutely clear, exactly what you feel is going on, and what you are doing with it?

SECRETARY MACDONALD: Let me try again:

There are two legs to the Anti-Dumping table -- if that is a correct simile. I have a little trouble visualizing that, myself!

(Laughter)

There are two pillars to that particular -- I forget what it is that goes across.

One is sales-at-less-than-fair-value./ One is Injury.

As to sales-at-less-than-fair-value, we have had allegations of dumping margins. Dumping sales at less-than-fair-value are a fairly substantial percentage and just a preliminary verification has indicated that we should look into that aspect of the case.

However, we also just look at this other pillar and we say, "How about injury? Is there injury alleged?"

That is, in the first instance.

If there is injury alleged: "Is there something in this whole procedure that should cause us to cut short the pain that an investigation of this sort inevitably causes to foreign Countries?"

That is a <u>second</u> assessment in judgemental call that we make--over here at the Treasury.

And the test, statutorily, is: Is there substantial doubt as to injury? Not as to sales-at-less-than-fair-value! That is over at this other side, now.

We concluded, "Yes", for the reasons I have just stated: Namely, representatives of the Industry itself saying, "Our injury is not caused by this problem", and, as a result of that, we are sending it over to the I.T.C. who handles that pillar. We don't handle that pillar. That is <u>their</u> pillar!

They will make a 30-day investigation into that particular problem.

MEMBER OF THE PRESS: There were two matters in the Dent proposal: one having to do with the Custom's classification of the small Japanese trucks as "Chassis cabs" rather than "trucks".

And the other one had to do with the Custom's -- what I think is called "ready acceptance" -- of cost valuations of production costs.

SECRETARY MACDONALD: These are issues that are not involved in the Dumping at all. There are other questions of valuation that have arisen.

MEMBER OF THE PRESS: Have you looked at that?

SECRETARY MACDONALD: Yes, we have looked at that.

MEMBER OF THE PRESS: You have not reached any decision?

SECRETARY MACDONALD: No.

However, we are investigating them, and we have certain entries -- certain automobile imports. Customs is in a dispute as to several automobile exporters right now --- and has those entries open for the reasons -- some of the reasons -- that you were just mentioning.

That is another matter, however.

MEMBER OF THE PRESS: Was it triggered by the Dent thing?

SECRETARY MACDONALD: No. Well, that investigation has been going on. I think those entries have not been liquidated since 1972. Some of them may have been. I don't want to say it was not. I just don't know. I cannot remember.

MEMBER OF THE PRESS: This is not the investigation because of the -- in 1971 -- slapping on of the import surcharge?

SECRETARY MACDONALD: No.

I think they do pre-date the Dent inquiry, although Congressman Dent is focussing right in on that area. That is another issue.

MEMBER OF THE PRESS: Mr. Macdonald, where, exactly, do you make the price comparison in the progress from the factory -- from the manufacturer -- to the United States?

SECRETARY MACDONALD: Wholesale. Usually, wholesale quantity.

MEMBER OF THE PRESS: I see. Naturally, before any local taxation in the Country?

SECRETARY MACDONALD: There are adjustments made for various taxes in order to equate the two sales right back to the factory.

MEMBER OF THE PRESS: But after the imposition of Trade duty?

SECRETARY MACDONALD: Yes. That is backed out.

Freight is backed out; differences in quantity; differences in style; and accoutrements to the car are backed out.

MEMBER OF THE PRESS: Before the imposition of the value-added tax?

SECRETARY MACDONALD: That is, of course, on the other side.

MEMBER OF THE PRESS: Yes.

ANOTHER MEMBER OF THE PRESS: Could you give us some idea as to the amount of the dumping margins that you found--so far--from the raw data?

SECRETARY MACDONALD: Well, the Complaints allege dumping margins of, I think -- in some cases - - up to 70%.

MEMBER OF THE PRESS: Did you say seventy?

SECRETARY MACDONALD: Yes, 70% less than the price being charged abroad.

I don't know what to say. I stand the danger of giving you the impression that we confirmed that. Let me say that we have got sufficient information to cause us to want to investigate that thoroughly!

MEMBER OF THE PRESS: Mr. Macdonald, do you mean 70% of the price charged in the United States, or 70% less than the price charged in the United States?

SECRETARY MACDONALD: 70% less.

MEMBER OF THE PRESS: Thank you.

ANOTHER MEMBER OF THE PRESS: Sir, you had the German Ambassador here yesterday, or the day before yesterday.

What are the German arguments against this investigation?

SECRETARY MACDONALD: I think I pretty much answered that as to all Countries. They are pointing out both what they believe to be legal questions that were raised, and political questions that are always involved in a proceeding like this.

MEMBER OF THE PRESS: Thank you.

(Whereupon the press briefing was concluded at 12:3[illegible])

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

FOR IMMEDIATE RELEASE August 8, 1975

TREASURY INITIATES INVESTIGATION INTO
ALLEGED DUMPING OF IMPORTED AUTOMOBILES

Assistant Secretary of the Treasury David R. Macdonald announced today that the Treasury Department is initiating a formal investigation into allegations that imported automobiles are being "dumped" on the U.S. market in violation of the Antidumping Act of 1921. The investigation involving automobiles from West Germany, the United Kingdom, France, Belgium, Italy, Sweden, Japan, and Canada will be conducted by the U.S. Customs Service to determine whether imports from these countries are being sold in the United States at prices below the prices charged for the same products in the individual home markets.

At the same time, Mr. Macdonald announced that the Treasury Department had requested the U.S. International Trade Commission to conduct a preliminary inquiry to determine whether, based on the information currently available, there is any reasonable indication that the U.S. industry is being or is likely to be injured by reason of these automobile imports. The USITC will have 30 days within which to conduct an inquiry. If they find that there is no such reasonable indication, the Customs investigation will be terminated. Mr. Macdonald explained that referral of the matter by the Treasury to the USITC at the preliminary stage of the proceedings is a new procedure authorized by the Trade Act of 1974. He said that recent statements by spokesmen for the domestic auto industry, minimizing the impact of auto imports on the current condition of the U.S. industry, had raised substantial doubt that there is a link between the allegedly dumped imports and the depressed state of the industry, as is required by the law.

The decision to initiate the investigation should not be viewed as a determination that dumping exists, Mr. Macdonald emphasized. The Treasury action only means that a sufficient amount of information has been received to warrant further, in-depth inquiry concerning whether foreign autos are being sold in this country at "less than fair value". The Treasury must make a tentative decision by February 7, 1976, unless complexities in the case require an extension of up to 3 months. If a determination is made that the imports are being sold at "less than fair value", the case will be referred to the U.S. International Trade Commission for a full scale investigation, concerning whether or not the U.S. industry is being or is likely to be injured by such imports. If the USITC finds actual or likely injury, special dumping duties would be assessed on an entry-by-entry basis to eliminate any price discrimination.

Mr. Macdonald added that, contrary to recently reported statements from abroad, the action announced today (1) is required by law in the event a valid complaint is filed with the Treasury Department, (2) is fully consistent with the international obligations of the U.S., and (3) in no way indicates a decision by the Administration to pursue a "protectionist" international trade policy. U.S. procedures under the Antidumping Act, which dates from 1921, are well established, circumscribed by extensive regulations, and in conformity with the International Anti-Dumping Code.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE August 11, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 3.0 billion of 13-week Treasury bills and for $3.1 billion of 26-week Treasury bills, both series to be issued on August 14, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 13, 1975			:	26-week bills maturing February 13, 1976		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	98.406 a/	6.306%	6.51%	:	96.569	6.750%	7.11%
Low	98.390	6.369%	6.58%	:	96.525	6.836%	7.20%
Average	98.395	6.349%	6.56%	:	96.539	6.809%	7.17%

a/ Excepting 1 tender of $420,000

Tenders at the low price for the 13-week bills were allotted 73%.
Tenders at the low price for the 26-week bills were allotted 7%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	:	Received	Accepted
Boston	$ 61,710,000	$ 40,710,000	:	$ 53,915,000	$ 34,665,000
New York	4,064,805,000	2,287,660,000	:	4,392,125,000	2,268,150,000
Philadelphia	33,985,000	32,105,000	:	82,405,000	56,405,000
Cleveland	115,915,000	68,215,000	:	73,925,000	48,925,000
Richmond	42,035,000	36,765,000	:	132,105,000	119,455,000
Atlanta	57,350,000	45,020,000	:	42,805,000	33,940,000
Chicago	466,200,000	226,160,000	:	414,815,000	241,085,000
St. Louis	50,755,000	40,505,000	:	39,935,000	27,435,000
Minneapolis	28,160,000	16,160,000	:	36,440,000	12,000,000
Kansas City	72,105,000	48,585,000	:	29,055,000	24,945,000
Dallas	34,835,000	26,835,000	:	23,995,000	16,995,000
San Francisco	278,405,000	132,425,000	:	349,750,000	217,750,000
TOTALS	$5,306,260,000	$3,001,145,000 b/		$5,671,270,000	$3,101,750,000 c/

b/ Includes $ 524,275,000 noncompetitive tenders from the public.
c/ Includes $ 264,005,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR A.M. RELEASE AUGUST 12, 1975

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE 32nd ANNUAL JUNIOR ACHIEVERS CONFERENCE
BLOOMINGTON, INDIANA, AUGUST 12, 1975
9:00 A.M., C.S.T.

This is a very special and happy occasion for me. During the last three years that I have spent in Washington, I have come to believe more and more strongly in the need for fresh vision and vigorous, dynamic leadership in private industry. Today I am proud to come here and salute many of the young men and women who will provide that leadership in the future.

In speaking to you, I am reminded of a young man who was struggling during the middle of the nineteenth century to establish himself as a poet. To win recognition, he decided to send a manuscript of his poetry to the giant of American Literature, Ralph Waldo Emerson.

Emerson read the work, entitled Leaves of Grass, and sent this note back to the young man:

"Dear Mr. Whitman," he said, "I greet you at the beginning of a great career."

Emerson was right, of course; Walt Whitman went on to become one of the most cherished of America's poets.

And so, too, I greet you as members of Junior Achievement at the beginning of what in many cases will be great careers. Through your participation in organizations such as Junior Achievement, I know that you are learning not only the techniques of organizing and running a successful business venture but that you are also coming to appreciate the contribution that free enterprise makes to this great nation.

Your attendance at this year's convention of Junior Achievers comes at a particularly opportune moment because we will soon celebrate the 200th anniversary of the Republic. Coming here and meeting other young men and women from all corners of America, hearing the Southern drawl and the Midwestern twang, seeing the fashions from the East and hearing the spicey stories about what it's like out West, each of you must be deepening your understanding of America and the rich, incredible diversity which makes us such a restless and energetic people. This is a good time for all of us to reflect on the American experience and what it means.

Some of you may remember the first pilgrims who came to these shores. Crossing the Atlantic to Plymouth Rock, huddled together against the winds of adversity, they heard John Winthrop deliver one of the most famous sermons in our history.

In the New World, Winthrop told them, "we must consider that we shall be a city upon a hill. The eyes of all people are upon us ... we shall be made a story and a byword through the world."

And that has been the American experience: to be that city upon a hill, a bright jewel in the galaxy of nations that holds out to all mankind the dream of "life, liberty, and the pursuit of happiness."

What has made this such a great nation? What has made people talk about the American Dream? Has it been the land? To be sure, we have been blessed by an abundance of natural resources, but in the Soviet Union we see a land mass that is much larger than our own, is equally well endowed, and yet the Russian land yields a smaller harvest of goods for its people. Today the Soviets turn to the United States for the grain they so badly need.

Does our secret lie in the talent of our people? To be sure, we are blessed with one of the largest and most talented populations that the world has ever known, but in China we see a population that is four times as large as our own, whose civilization was developed far in advance of our own, and yet today their standard of living is far below our own.

Our land and our people, then, have both been essential parts of the American story, but they are not the whole story. A third ingredient -- the ingredient that is missing in the Soviet Union and China, the ingredient that has always made us different -- has been our freedom.

The early Americans streamed to these shores in search of freedom -- freedom of religion, freedom of speech, freedom of the press, freedom of assembly, and freedom to seek their fortunes without fear or favor of the government. Each of these freedoms was planted firmly in our Constitutional soil; each grew and bore fruit; but each has become such a familiar part of our landscape that I now wonder whether we take them too much for granted.

Those of you who have had the privilege to travel in other lands have seen how precious freedom has become in the world today. Only a tiny handful of nations now permit their citizens the liberties we enjoy here. It is no accident that in every country where people have been given a free choice between communism and democracy, they have voted for democracy. And thousands of people have gladly risked their lives in desperate attempts to escape from tyranny into freedom.

There is nothing plastic or artificial about freedom, nor is there any guarantee of its permanency. As Dwight Eisenhower once said, "Freedom has its life in the hearts, the actions, and the spirits of men, and so it must be daily earned and refreshed -- else like a flower cut from its lifegiving roots, it will wither and die."

I worry greatly today about the survival of one of the most vital but least understood of our freedoms in America: our freedom of enterprise. The free enterprise system is the foundation of our economy, the rock upon which we have built our earthly kingdom.

It is the system of free enterprise that has summoned forth the genius of our people -- young men and women like you who wanted to make a difference in the world. One of our greatest inventors, Ben Franklin, was a printer's appretice at 12, was writing and selling ballads at 15, and was publishing his own newspaper less than a decade later. Eli Whitney invented the cotton gin within a year after he graduated from college. By the age of 26, John D. Rockefeller had emerged from the obscurity of being a sales clerk to owning his own oil refinery. At the same time, 10-year-old Thomas Edison -- expelled from school because his teacher thought he was retarded -- was working in his own chemistry lab and by the time he was 30, had invented the phonograph. And at the age of 13, Andrew Carnegie went to work in a cotton factory -- a poor immigrant from Scotland.

It is the system of free enterprise that has also provided productive jobs for the great majority of workers, fulfilled basic wants, enabled people to live more satisfying lives, and enriched the human experience. The cotton gin that Eli Whitney invented not only increased our cotton exports by more than a hundred fold within less than 20 years, but it also provided inexpensive clothing to millions of people. The mass production introduced by Henry Ford gave the world a cheap form of transportation that has been crucial for our industrial progress and has provided us with personal mobility that would have seemed impossible a century ago. And the little Brownie camera that George Eastman marketed in 1895 opened the way to a whole new art form that has given us all an extra sense of understanding and joy.

Nor have such advances been limited to work done by men. There have been a countless number of women whose stories are not as well known but have also been a vital part of our history -- women such as Eliza Pinckney whose perfection of methods for growing the indigo plant gave the Carolinas a product that was the main staple of their economy before the Revolutionary War. Each of these men and women enjoyed and thrived on the freedom provided by our economic system.

It is, indeed, the system of free enterprise that has given this country the greatest prosperity and the highest standard of living ever known to man:

-- In the last 15 years, poverty in this nation has been cut in half.

-- Our farms today are harvesting more than twice as much grain as they were a quarter of a century ago -- and with far fewer people to get the job done. Each American farmer now feeds as many as 50 of his fellow citizens with one of the most nutritious diets anywhere in the world.

-- Our technology has made us the only nation on earth to place a man on the moon -- and we've done that six times now.

-- Our medical science has extended average life expectancy by more than 10 years since the turn of the century.

-- Our technology has provided us with more leisure time -- time for recreation, hobbies and for being with friends -- than any society since the days of the ancient Greeks.

-- And our economic wealth has allowed us to give other nations over $110 billion in food and economic assistance in the last 30 years generosity that finds no parallel in world history.

It is also the system of free enterprise that has fired the imagination and determination of our people. No mountain has ever been too high nor has any ocean ever been too wide to cross. To cite but one example, you may recall that a century ago the Civil War practically destroyed the country's whaling fleet, bringing a collapse to the industry that provided the major source of lighting. Within a few years the price of whale oil shot up from a few pennies to over $2 a gallon. Cries went up across the land, "We are ruined."

What happened? Men with vision who had discovered a way to make kerosene began marketing kerosene lamps in place of whale oil lamps and before the end of the century two new industries -- petroleum and electrical -- were rapidly developing. As for whale oil lamps, they were sent to the museum -- a useful reminder of how our system has been able to respond to crises.

It is also the system of free enterprise that has taught us never to give up, never to fall prey to the cynics, and the preachers of gloom and doom. That fine old gentleman, Thomas Edison, is said to have tried 586 experiments to find the right filament for an electric light. None of them worked. "It's a shame," his assistant told him, "to have tried 586 times and failed."

"But we haven't had 586 failures," Edison replied.

"But, sir, we have," cried the assistant.

"No," said Edison, "we now know 586 ways that won't work and won't have to be tried again." Edison would not allow himself to be defeated, and eventually, of course, he made one of those breakthroughs that has changed the course of civilization. Edison was never a quitter. To him, as he once said, "genius is one percent inspiration and 99 percent perspiration."

Yet today, I submit to you that it is this same system of free enterprise -- the system that has given us so much -- that has been placed in greater danger than at anytime in my memory. For years America has been drifting away from her moorings, lured by the false promise of those who say that the government can do the job better than the people themselves and that we can no longer trust the individual to look out for himself.

We see the threat to free enterprise in the growing domination of government spending within our economy. Back in the 1920s, 12 cents out of every dollar spent in the United States was spent by the government. Today 33 cents out of every dollar is spent by the government. And if these trends continue, before the end of this century -- when most of you will still be in the prime of life -- the government could be spending as much as 60 cents out of every dollar. If we ever reach that dreaded day when you spend half of every day just earning money for the government, you had better have your hand on more than your wallet: you will also find that your personal and political freedoms may be stolen. As President Ford has aid, "a government big enough to give us everything we want is a overnment big enough to take from us everything we have."

Why has government spending exploded? Because, I would suggest, e have been willing to assign to the government the responsibility or solving many of the problems that people should be solving for hemselves. We being with the best of intentions but wind up with ocial programs that are spinning out of control. The food stamp rogram began as a small, $14 million experiment in 1962. By 1976, t will cost over $6.6 billion a year -- a 47,000 percent increase -- nd it is a well-known haven for the chislers and rip-off artists. nly a few weeks ago, a national magazine advertised a booklet that old people how to obtain food stamps even if they earned as much as 16,000 a year. So much for the spirit of self-reliance.

We also see the threat to free enterprise arising in the army of vernment regulators that has been marshalled along the banks of the tomac. The regulators are a little different from the traditional ireaucrat. There was a time when a story about Pope John rang ue for Washington as well. The Pope was asked by a visitor how ny people worked in the Vatican. He thought for a moment and swered, "I would say about half." The regulators are changing that adition in Washington: they are all working full-time, and they em to be working overtime on the business community.

Let's suppose for a moment that you lived in Chicago and borrowed some money to start a small trucking business to carry freight to Cleveland, Ohio. That seems easy enough: Cleveland is not far from Chicago. Should you then rush out and invest in a few trucks? Sorry, the first thing you should do is file a request with the Interstate Commerce Commission. That will cost you $350 in filing fees, and you'll probably need a private lawyer to boot. Well, you say, the request must be only a formality and you can get started in a few weeks time. Sorry, but the request will almost inevitably lead to legal hearings and you will have to prove that existing service to Cleveland is inadequate and that existing carriers cannot be made to provide it. The average request now takes 10 months to process and some have been known to take over three years. Protests by existing carriers often lead the ICC to give only restricted approval to requests from new carriers and, especially along well-traveled routes, to deny many requests altogether. Undaunted, you wait it out, obtain your approval, and decide that the best way to get a break on your competitors is to reduce the prices you charge to your customers. Sorry, your proposed rate reduction will probably be protested by other carriers and then suspended by the ICC. In effect, the government will force you to charge higher prices, even though you could afford to charge lower ones. Nonetheless, even with the higher rates you win a few customers with exceptionally good service, and new customers appear, asking that you carry their goods from Cleveland back to Chicago. Good, you say, your business is expanding. Sorry, the ICC won't allow it unless your original certificate specifically authorizes you to carry those products on the backhaul to Cleveland. The ICC requires instead that you drive back to Chicago with an empty truck -- a practice that is still frequent even in a day of high cost energy. Despite all of these problems, you persevere and customers soon want you to carry their goods not only to Cleveland but also downstate to Columbus, Ohio. Sorry, but your ICC certificate says you can only go between Chicago and Cleveland; to drive to Columbus, you'll have to get a new certificate, and that means you'll have to start the whole process all over again -- lawyers, forms hearings, rate settings, the works. At that point, you might be justified in throwing up your hands and sending off for that pamphlet which tells you how to collect food stamps. I wish that I were exaggerating the complexities and frustrations of dealing with the government bureaucracy, but I'm sad to say that it's all true.

In this and a countless number of other ways, the Government's regulatory process has become so heavy handed that it is beginning to strangle the free enterprise system in this country. Nor do regulations provide much help for consumers, for they breed inefficiency and run up operating costs -- costs that reflect themselves in the tens of billions of dollars of inflated prices. Your government has proven that it is simply not equipped to replace the private business system in this country. Even Ralph Nader, the arch critic of the auto industry, once noted that, "If there is one thing worse than GM producing cars, it would be the U.S. government producing them."

Most of our major public institutions in this country -- the government, our schools and our places of worship -- have all declined in public esteem in recent years, but none has suffered as severe a drop as business. Young people in particular show a dismaying lack of trust in the business community: to many of your peers, profits are not properly understood as the basis for creating new jobs but as an example of human greed; corporations are thought to be raping the environment; and big oil companies are said to be conspiring against the consumer. The misconceptions that exist about business today are staggering. A recent poll conducted by George Gallup among college students found that the average estimate of business profits was 45 cents on every dollar; in reality, profits are only one-tenth that amount. It's that kind of misunderstanding which has led to laws in the United States that impose a heavier tax burden on corporations than do the tax laws of almost any other major country in the world.

Some two hundred years ago, when the founding fathers gathered in Philadelphia, there was a great deal of secrecy about the constitution they were drafting. As their meetings broke up, a woman rushed up to Ben Franklin and asked, "Well, Doctor, what have we got, a republic or a monarchy?"

Franklin looked at her a second and then answered, "A Republic, Madam, if you can keep it."

That, my friends, is the question we face today: can we keep this great free enterprise system that our forefathers helped to provide for us in the early days of our nation? Two hundred years ago, when America fought for her independence, do you realize what that struggle was all about? Economic freedom -- that was the central issue. Now, as we celebrate our Bicentennial, it is certainly ironic that economic freedom has become a central issue once again -- and once again, we must fight to secure our liberties.

Let us not deny that there are flaws in this system. It does not provide all of the answers to our problems and it creates problems of its own. But it has proved over and over again in history that it provides greater opportunity for career development and personal fulfillment, greater material wealth for more people, and a better guarantee of our personal and political freedoms than any other system ever known.

Instead of blindly condemning the system, let us open our eyes to its faults and work to correct them. Instead of tearing down the foundations of America, let us build upon them. And instead of turning our backs and dropping out when the going is too rough for any one of us, let us unite and join forces so that we will have the strength of ten.

In many ways, I find that young people are way out in front of the rest of society. You insist upon straight answers. You will no longer accept rhetoric in place of reality, promises in place of performance. If I understand the voice of the young, you are saying that our loss of faith in our ideals does not mean that the ideals have failed but that we have failed to live up to them. And a growing number of young people are beginning to recognize the grave dangers which overweening governmental power poses to their own hopes for personal fulfillment. Through all the ages of man, one of the greatest threats to individual freedom and individua progress has been concentrated power -- whether that power has resided in the State, the church, big business, big labor, or whatev Now more young people are frequently telling us -- and rightly so, I believe -- that our democracy's vast and growing governmental machinery is rapidly becoming a new menace to individual freedom in the United States.

In my generation, there are many men and women who are struggli to reform and preserve the democracy that you will inherit. We are trying to introduce a greater sense of discipline in government spending so that our Nation will not drown in the red ink of budget deficits and there will be enough money to invest in the future. We trying to lift the dead hand of governmental regulation so that the spirit of free enterprise can flourish again. And as we work to end those abuses which do exist in the business community, we are also trying to educate more Americans about the unparalleled virtues of ou political and economic system.

Yet my generation knows full well that even if we can stop the tide running toward a government managed economy, it will be up to your generation to reverse that tide and to rebuild and revitalize our democracy for the twenty-first century. Our challenge is a great one, but yours perhaps will be greater still. The world will long remember the chapter that you write into human history.

There is an old, familiar story -- perhaps you have heard it -- about a wise man in Damascus who could answer any riddle in life. One day a young boy decided to play a trick on the old man. The boy said to himself: "I will capture a bird, hold it cupped in my hand, and ask the old man if it is dead or alive. If he says dead, I shall let it fly away, but if he says alive, I shall crush it in my hands. The old man shall certainly give me the wrong answer."

So the young boy caught a bird and went to the wise old man. "Is the bird dead or alive?" he asked.

"My son," said the man, "the answer to that question is in your hands."

Shall freedom live or perish in America? My friends, the answe to that question is in your hands.

Thank you.

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Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE W04-2041

FOR RELEASE AT 4:00 P.M.

August 12, 1975

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TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,300,000,000, or thereabouts, to be issued August 21, 1975, as follows:

91-day bills (to maturity date) in the amount of $3,100,000,000, or thereabouts, representing an additional amount of bills dated May 22, 1975, and to mature November 20, 1975 (CUSIP No. 912793 XY7), originally issued in the amount of $2,800,560,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,200,000,000, or thereabouts, to be dated August 21, 1975, and to mature February 19, 1976 (CUSIP No. 912793 YU4).

The bills will be issued for cash and in exchange for Treasury bills maturing August 21, 1975, outstanding in the amount of $5,305,370,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,977,265,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, August 18, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

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securities and report daily to the Federal Reserve Bank of New York their position with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on August 21, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 21, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE WO4-2041

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FOR RELEASE AT 4:00 P.M. August 14, 1975

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for 364-day Treasury bills to be dated August 26, 1975, and to mature August 24, 1976 (CUSIP No. 912793 ZR0). The bills will be issued for cash and in exchange for Treasury bills maturing August 26, 1975.

Tenders in the amount of $2,210 million, or thereabouts, will be accepted from the public, which holds $2,205 million of the maturing bills.

Additional amounts of the bills may be issued at the average price of accepted tenders to Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, which hold $ 598 million of the maturing bills.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Wednesday, August 20, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without

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deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on August 26, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 26, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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Contact: L. F. Potts
x2951

FOR IMMEDIATE RELEASE August 14, 1975

ANTIDUMPING INVESTIGATION INITIATED ON KNITTING MACHINERY FOR LADIES' SEAMLESS HOSIERY FROM ITALY

Acting Assistant Secretary of the Treasury James B. Clawson announced today the initiation of an antidumping investigation on imports of knitting machinery for ladies' seamless hosiery from Italy.

Notice of this action will be published in the Federal Register of August 15, 1975.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition alleging that dumping was occurring in the United States. The information received tends to indicate that the prices of the merchandise to unrelated U.S. purchasers are less than the constructed value.

Imports of the subject merchandise from Italy during CY 1974 were valued at roughly $2.25 million.

Department of the TREASURY NEWS
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Contact: R. B. Self
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August 14, 1975

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES COUNTERVAILING DUTY
INVESTIGATIONS ON CHEESE FROM FINLAND AND SWEDEN

Assistant Secretary of the Treasury David R. Macdonald announced today that the Treasury Department is initiating investigations under the Countervailing Duty Law against imports of cheese from Finland and Sweden. A "Notice of Receipt of Countervailing Duty Petition and Initiation of Investigation" will be published on these cases in the Federal Register of August 15, 1975.

Under the Countervailing Duty Law (19 U.S.C. 1303) the Secretary of the Treasury is required to assess an additional (countervailing) duty on imported merchandise equal to the amount of the "bounty or grant" which has been paid or bestowed on such merchandise. The Treasury Department must issue a preliminary determination as to whether or not a "bounty or grant" is being paid or bestowed on cheese from Finland by no later than December 10, 1975, and on Swedish cheese by no later than December 18, 1975. Final determinations must be issued on Finland by no later than June 10, 1976, and Sweden by no later than June 18, 1976.

During 1974, imports of cheese from Finland were valued at $11.2 million. Swedish cheese imports during the same year were $1.5 million.

In another action under the Countervailing Duty Law, Mr. Macdonald announced that the period of time for written views provided in a series of preliminary determinations published in the June 30 and July 3, 1975 Federal Register would be extended until September 3, 1975.

Today

7/29/75

2 3/4 yr note 7.94

7/17/75

2-yr note 7.52

High on a short note since 9/24/74 (2-yr.) 8.34%

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FOR IMMEDIATE RELEASE August 14, 1975

RESULTS OF AUCTION OF 2-YEAR TREASURY NOTES

The Treasury has accepted $2.0 billion of the $4.9 billion of tenders received from the public for the 2-year notes auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	8.15% 1/
Highest yield	8.29%
Average yield	8.25%

The interest rate on the notes will be 8-1/4%. At the 8-1/4% rate, the above yields result in the following prices:

Low-yield price	100.180
High-yield price	99.926
Average-yield price	99.998

The $2.0 billion of accepted tenders includes 27% of the amount of notes bid for at the highest yield and $0.5 billion of noncompetitive tenders accepted at the average yield.

In addition, $10 million of tenders were accepted at the average-yield price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

1/ Exoepting 17 tenders totaling $9,920,000

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Contact: L. F. Potts
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FOR IMMEDIATE RELEASE August 15, 1975

TREASURY ANNOUNCES TENTATIVE
REVOCATION OF DUMPING FINDING ON
POTASSIUM CHLORIDE FROM FRANCE

Acting Assistant Secretary of the Treasury James B. Clawson announced today a tentative determination to revoke a finding of dumping in the case of potassium chloride, otherwise known as muriate of potash, from France under the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of August 18, 1975. A finding of dumping with respect to potassium chloride from France was published in the Federal Register of December 19, 1969.

The Federal Register notice of August 18, 1975, will state in part the finding that the sole exporter, Societe Commerciale des Potasses et de l'Azote, previously known as Societe Commerciale des Potasses d'Alsace, is no longer selling, or likely to sell, potassium chloride to the United States at less than fair value and that assurances have been received that future sales of potassium chloride to the United States will not be made at less than fair value.

There were no imports of potassium chloride from France during the period January 1973 through March 1975.

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041
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FOR IMMEDIATE RELEASE August 18, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.1 billion of 13-week Treasury bills and for $3.2 billion of 26-week Treasury bills, both series to be issued on August 21, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing November 20, 1975			26-week bills maturing February 19, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.381 a/	6.405%	6.62%	96.478 b/	6.967%	7.34%
Low	98.363	6.476%	6.69%	96.450	7.022%	7.40%
Average	98.369	6.452%	6.67%	96.461	7.000%	7.38%

a/ Excepting 1 tender of $140,000
b/ Excepting 1 tender of $605,000

Tenders at the low price for the 13-week bills were allotted 15%.
Tenders at the low price for the 26-week bills were allotted 97%

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 43,785,000	$ 33,055,000	$ 55,905,000	$ 18,755,000
New York	3,800,020,000	2,456,995,000	4,420,095,000	2,278,245,000
Philadelphia	33,800,000	28,800,000	59,515,000	44,515,000
Cleveland	55,595,000	45,595,000	159,610,000	78,860,000
Richmond	46,460,000	33,760,000	57,085,000	31,270,000
Atlanta	41,890,000	38,940,000	39,300,000	31,400,000
Chicago	296,420,000	183,420,000	699,055,000	543,405,000
St. Louis	51,225,000	36,405,000	52,005,000	44,555,000
Minneapolis	22,685,000	14,285,000	46,545,000	28,395,000
Kansas City	64,805,000	49,525,000	26,355,000	18,490,000
Dallas	32,405,000	23,405,000	31,335,000	11,835,000
San Francisco	243,475,000	156,385,000	269,290,000	70,605,000
TOTALS	$4,732,565,000	$3,100,570,000 c/	$5,916,095,000	$3,200,330,000 d/

c/ Includes $484,185,000 noncompetitive tenders from the public.
d/ Includes $232,550,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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FOR RELEASE AT 12:00 NOON EDT

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STATEMENT OF SIDNEY L. JONES
ASSISTANT SECRETARY OF THE TREASURY FOR ECONOMIC POLICY
BEFORE THE
ANNUAL MEETING OF THE AMERICAN ACCOUNTING ASSOCIATION
TUCSON, ARIZONA
AUGUST 19, 1975

ECONOMIC POLICY AT THE TURNING POINT

The famous author George Santayana once wrote: "Those who cannot remember the past are condemned to repeat it." Analysis indicates that each repetition requires a higher price to be paid. While public attention is focused on current developments, as the economy moves from severe recession into moderate recovery, the major challenge is to plan beyond existing problems and uncertainties. Economic policies at this turning point must concentrate on the persistent problems of inflation, excessive unemployment, low productivity, capital formation, energy resource development and conservation and international economic instability.

Thirty years ago the Employment Act of 1946 declared the objective of national economic policy to be: "To promote maximum employment, production, and purchasing power" through actions consistent with "other essential considerations of national policy" in ways "calculated to foster and promote free competitive enterprise and the general welfare ...." Within this general framework specific fiscal and monetary policies have achieved mixed economic and social results with occasional recessions to remind us that economic growth is not guaranteed.

The United States has generally experienced rising output, expanding personal consumption, relatively low levels of inflation and growing employment opportunities. At the same time, the dominant influence of rising expectations has created a confrontation between two basic economic truths: (1) the list of claims against the national output of goods and services is literally endless; and (2) human, material and capital resources are limited even in the advanced U. S. economy. This obvious contradiction requires a more careful ranking of claim priorities and effective management of economic policies. In particular, we need more stable fiscal and monetary programs which do not overreact to fluctuating economic developments. Over the past decade recession and expansion trends have too often been exaggerated by frequent fine-tuning policy adjustments. It is not so much a problem of deciding what to do as it is one of sustaining basic

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policies long enough to encourage stable growth and longer-term planning.

I. Current Economic Outlook

Current policy decisions must begin with an understanding of the background and current status of the economy. During the mid-1960's the simultaneous escalation of public spending for the Vietnam War and various social programs combined with a capital investment boom in the private sector to overheat the economy and create accelerating inflation pressures. That rapid expansion was followed by a relatively mild recession and gradual improvement in reducing inflation. Then a sharp economi recovery from 1971 through 1973 resulted in an annual rate of increase in the "real" GNP of 5.5 percent which was well above the long-term capacity of the U. S. economy to expand real output approximately 4 percent each year. During that same three-year period the average annual increase in the GNP price deflator was 4.7 percent and unemployment declined from 6 percent to 4.6 percent by October 1973 as 7.2 million additional people were employed. The trade deficits of 1971 and 1972 were reversed and a small surplus was reported in 1973. In general, the performance of the U. S. economy was impressive throughout that period but the pace of expansion could not be sustained. The housing and automobile industries began to falter as inflation surged upward early in 1973. Raw material and productive capacity shortages also restricted growth. Finally, the oil embargo declared against the United States in October 1973 disrupted economic activity and created great uncertainties.

In the first quarter of 1974 real output declined sharply at a 7.0 percent seasonally adjusted annual rate. The economy then stabilized temporarily in mid-year before rapidly deteriorating into a severe recession in the fall as residential construction, automobile sales, business investment, and consumer spending all declined. During the last three months of 1974 real output fell at a 9.0 percent seasonally adjusted annual rate and it became clear that economic policies had to focus on reversing the sharp deterioration in output and final sales without abandoning the necessary effort to control the double-digit inflation which had been largely responsible for the serious erosion of home building, consumer spending and business investment.

By yearend 1974 some analysts believed that the sharp deterioration in economic activity would continue leading to a world-wide depression comparable to the traumatic experiences of the 1930's. Others argued that economic recovery would begin long before such catastrophic developments occurred. The Administration based its policy recommendations on analysis that a turning point would occur about mid-year if three fundamental adjustments could be accomplished: (1) the unwanted accumulation of inventories could be cleared out and new orders increased; (2) "real incomes" of consumers could be restored by significantly reducing the level of inflation and initiating tax reductions and rebates; and (3) the "lay-off rate"--the number of workers losing their jobs--could be reduced so that unemployment would stop rising so rapidly and consumer confidence could be strengthened.

During the first quarter of 1975 real output of goods and services continued to decline at a seasonally adjusted annual rate of 11.4 percent but economic conditions were already beginning to shift. During those first three months of 1975 personal consumption, net exports of goods and services and government spending at all levels reported strong gains. Most of the economic weakness was concentrated in the private investment sector where residential construction and business spending declined and a massive turnaround in inventories occurred. During the last three months of 1974 unwanted inventories were accumulated at a seasonally adjusted annual rate of $18 billion. In the first quarter of 1975 the situation was reversed as inventories were liquidated at an adjusted annual rate of $19 billion. Since final sales were basically flat, the severe drop in total output reported during the first three months of this year was a direct result of the large swing in inventories which was a necessary prerequisite for future recovery.

As the spring progressed other signals that an economic adjustment was occurring became evident. The current rate of consumer price increases dropped from the double-digit level of 1974 to a 6 to 7 percent zone and the Tax Reduction Act of 1975 was finally passed in March. As a result, real disposable personal income (stated in constant dollars) increased at a seasonally adjusted annual rate of 21.5 percent during the second quarter of 1975 following five consecutive quarterly declines. This improvement was reflected in strong retail sales. The "lay-off" rate declined steadily throughout the first half of 1975, employment began rising again in April and the average number of hours worked and the amount of overtime increased. As the inventory liquidation cleaned out unwanted stocks new orders turned up in April and industrial production bottomed

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out early in the summer. Exports continued at a strong pace throughout this period and rising government spending provided anticipated stimulus. The downward slide in new home and automobile sales finally stabilized and modest gains occurred in both sectors by late spring.

Publication of preliminary GNP figures for the second quarter indicates that the sharp decline in real output has ended and that the U. S. economy has entered into the expected recovery period. The level of real economic activity (adjusted to remove the effects of price changes) was basically stable--down only 0.3 percent at a seasonally adjusted annual rate--according to the preliminary estimates which will be revised Thursday. This turnaround represents a major improvement following five consecutive quarterly declines in the real GNP.

While it is gratifying that the turning point was reached sooner than expected and the pace of recovery is somewhat stronger than anticipated, this shift in direction does not mean that everything is now fine. To the contrary, a turning point at the bottom of a cycle represents the worst combination of economic conditions experienced during a recession. It is likely that there will be many more economic disappointments during the coming months as the moderate recovery accelerates. But it is certainly encouraging to note the upward tilt of most economic statistics, particularly: (1) the improvement in employment and the related drop in the seasonally adjusted unemployment rate from 9.2 percent in May to 8.4 percent in July; (2) the increase in retail and wholesale inventories in June in response to several months of strong sales; (3) the second consecutive monthly gain in industrial production reported for July; and (4) the strong upward trend, beginning in March, of the new composite index of twelve leading statistical indicators. These developments provide a necessary foundation for a sustained recovery into 1976 based on rising personal spending which will eventually stimulate a resumption of business investment to meet the demand for goods and services. Although the shape and speed of this recovery is still uncertain, because of the dominant role of inventory adjustments and the continuing problems in the housing and automobile sectors, moderate expansion of economic activity is now clearly underway.

II. Economic Policies

While there is widespread agreement that a moderate-to-strong economic recovery has begun, there is justified concern about its sustainability. The severe recession just experienced clearly demonstrated that the U.S. economy can be constrained by shortages of oil and other industrial raw materials. Consumer sentiment is still fragile and directly dependent upon future employment developments. Business capital investment must be increased if the near-term expansion is to continue and needed productive capacity and future jobs are to be created. Because the immediate pattern of business investment will be largely determined by the strength of personal consumption, it is crucial at this stage of the recovery that a surge of new inflation pressures be avoided. Prices are still increasing at an unsatisfactory seasonally adjusted annual rate of 6 to 7 percent. An escalation of current prices--or of inflationary expectations--during the next few months would quickly disrupt both personal and business spending plans which would, in turn, curtail both the strength and sustainability of the recovery. Therefore, current policies must guard against fiscal and monetary excesses which would disrupt the current expansion and complicate the problems of creating a more stable economy.

The fiscal dilemma of rapidly increasing government expenditures and lagging revenues continues to distort economic planning. During the past decade fiscal policies have had to adapt to the surge of spending for the Vietnam War and various social spending programs, the major impact of inflation and the sharp erosion of revenues and increased transfer payments caused by two recessions. From Fiscal Year 1966 through Fiscal Year 1975, Federal budget outlays increased from $134.6 billion to $325.1 billion (Table 1). During that decade the cumulative budget deficit totaled $148.7 billion and the "net increase" in borrowing for various "off-budget" programs excluded from the Federal budget totaled an additional $149.7 billion.

In attempting to respond to the severe recession, the President originally submitted a proposed Federal budget for Fiscal Year 1976 which called for outlays of $349.4 billion and a deficit of $51.9 billion. The mid-session review published May 30 subsequently increased the expected outlays to $358.9 billion and the deficit to $59.9 billion. In a separate action by Congress, their first concurrent Resolution on the budget published May 9 recommended outlays of $367.0 billion and a deficit of $68.8 billion. Whatever the final figures turn out to be it is obvious that another large increase in spending and a record-level budget deficit will occur.

The President also asked for a temporary cut in taxes to help stimulate the economic recovery expected by mid-year. In March the Tax Reduction Act of 1975 was finally passed which provided approximately $20 billion of net tax relief. About $17 billion of the tota was allocated to individuals in the form of a rebate on 1974 taxes and temporary reductions for 1975 were provided by increasing the standard deductions, an additional $30 exemption credit, a 5 percent housing credit and an earned income credit for eligible low-income families. Business tax relief was provided by increasing the investment tax credit to 10 percent and by raising the surtax exemption fo small firms. At the same time, the depletion allowance for oil and natural gas was phased out and limitations added in the use of forei tax credits associated with foreign oil and gas operations. Dur the next few months important decisions about possible extension of parts of the 1975 tax cuts must be made as the pattern of economic recovery becomes clearer.

The rapid growth of Federal spending during the past decade has increasingly eroded our fiscal flexibility. Many government programs involve an "entitlement authority" which makes the actual outlays open-ended depending upon the eligibility rules and benefit levels established. There has been a tendency to liberalize both guidelines and benefits for Federal retirement, social security and other income maintenance programs are now indexed so that they rise automatically as inflation occurs. Other outlays are required by specific legislation and contractual agreements. As a result, the Federal budget is increasingly committed to the priorities of the past which makes it difficult to respond to current problems and future claims. Approximately three-fourths of the Federal budget is now considered to be "uncontrollable" because of existing entitlement and contractual obligations. In theory, there is no such thing as an "uncontrollable" budget commitment since Congress controls the annual appropriations process. In reality, existing programs are rarely eliminated or reduced and new claims are typically "added on" to current outlays. The near-term prospects are for continued increases in outlays and more Federal budget deficits. This trend can either be modified by Congressional action or resources can be transferred from the private sector which would mean a further increase in the role of government in the economy.

A second important problem concerns the proper role of the Federal budget. In preparing the budget plan government officials are actually allocating the human and material resources available and determining the division of responsibilities between the public and private sectors. This is clearly a proper function. However, since the 1930's the Federal budget has been used more and more as a tool for economic stabilization. Increased outlays and resultant deficits are defended by claiming that Federal spending is required to replace private demand during periods of slack. The size of the

Federal budget is then manipulated to meet current economic stabilization goals in this system of economic management. Unfortunately the balance turns out to be asymmetrical, because deficits usually occur during periods of both strong and weak economic activity. Federal budget deficits have been recorded in fourteen out of the last fifteen fiscal years--or forty of the last forty-eight years--and more are expected according to our current five-year projections.

The overall results of using the budget for stabilization purposes are not clear because of the complexity of the total economy and the lagged impact of such policies. But one specific result does seem obvious: The creation of new spending programs during periods of economic slack typically creates a permanent sequence of outlays that continues far beyond the immediate need for stabilization.

Hopefully, increased realism in determining future fiscal policies will result from the recent creation of a Congressional Budget Office which is required to provide overall Federal budget targets for receipts and outlays for the guidance of the new Congressional budget committees. In the past, appropriations have been approved by individual committees so that it was impossible to develop a comprehensive overview of the total impact of the specific legislative actions. Under the new procedures, the two Congressional budget committees will prepare a concurrent Resolution establishing the basic budget goals and identifying their impact on the entire economy. The actions of each appropriation committee will then be combined and compared with the budget committee recommendations before preparing a second concurrent Resolution for Congress to approve. A trial run using these procedures over the past few months for coordinating spending decisions has been encouraging and a new sense of priorities and discipline may well result from this new approach.

The combination of increased government spending and tax reductions has provided extensive stimulus for the economy in moving back to a recovery pattern. Given the severity of the recession, particularly the large increase in unemployment, a sizable budget deficit during the past year was a suitable response. But such fiscal actions must be carefully controlled, even during difficult periods, to avoid more permanent erosion of our future flexibility. Fiscal responsibility is particularly important in providing a necessary balance with monetary policies. The Federal Reserve System is too often required to bear a disproportionate burden in restraining inflation pressures whenever government spending and tax policies create excessive stimulus. Extensive criticism was directed at monetary authorities during the last few months of 1974 and early 1975 because of the very low rate of growth of the money supply at an annual rate of only 1 percent during the six months period ending January 15, 1975. Since late January the money stock has increased at a seasonally adjusted annual rate of 9.4 percent. Combining these two periods indicates that the money supply has increased about 5 percent over the past year with almost all of the growth occurring during the last few months. Given the volatile nature of short-term monetary developments, a longer-term perspective of monetary policy indicates that officials are moving toward the policy commitment of keeping the money supply growth in the 5 to 7-1/2 percent zone while also giving careful attention to interest rates and other monetary measures. This policy goal appears to be a reasonable target when combined with the existing stimulus being provided by fiscal actions.

III. SUMMARY

Although the recovery is apparently well underway, the next few months are likely to be a turbulent period as fiscal and monetary policies will probably be under intense pressure to respond to specific inflation and unemployment developments. In such a volatile environment, those who advocate more stable economic policies will be considered naive at best and insensitive at worst. Nevertheless, there must be a longer-term perspective in determining policies if we are to ever avoid the "stop-go" results of the past. Recent events clearly demonstrate that the U.S. economy will not function properly with high single or double-digit inflation just as it cannot survive for very long with such excessive levels of unemployment. The constant shifting of policies and resulting uncertainties about the lagged impact of such actions has too often frustrated the basic goal of promoting "maximum employment, production, and purchasing power."

The beginning point in adopting more stable fiscal and monetary policies is a restoration of public confidence in the government's ability and willingness to establish longer-term economic goals. As members of the American Accounting Association you have an important education role in describing how the American economy works and in preserving the integrity of the comprehensive system of financial accounts which provides most of the information required for public and private sector economic decisions. As you fulfill this important assignment, I hope that you will also communicate to your students, business associates and the general public a greater awareness of the productivity and creativity of the U.S. economy when it is allowed to function properly.

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TABLE 1

FEDERAL BUDGETS

CHANGES IN THE UNIFIED BUDGET OUTLAYS

BY FISCAL YEAR, 1961-1976

(dollars in billions)

Fiscal Year over Preceding Year	Federal Outlays	Dollar Increase	Percentage Increase	Surplus or Deficit
1961	$ 97.8	$ 5.6	6.1	-3.4
1962	106.8	9.0	9.2	-7.1
1963	111.3	4.5	4.2	-4.8
1964	118.6	7.3	6.1	-5.9
1965	118.4	-0.2	--	-1.6
1966	134.7	16.3	13.8	-3.8
1967	158.3	23.6	17.5	-8.7
1968	178.8	20.5	13.0	-25.2
1969	184.5	5.7	3.2	+3.2
1970	196.6	12.1	6.6	-2.8
1971	211.4	14.8	7.5	-23.0
1972	231.9	20.5	9.7	-23.2
1973	246.5	14.6	6.3	-14.3
1974	268.4	21.9	8.8	-3.5
1975	325.1	56.7	21.1	-44.2

Source: Economic Report of the President, February 1975, Table C-64, p.324, for years 1961 through 1974; 1975 figure published in joint statement of Secretary William E. Simon and Director James T. Lynn concerning "Budget Results for Fiscal Year 1975," July 28, 1975.

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FOR RELEASE AT 4:00 P.M.

August 19, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,300,000,000 , or thereabouts, to be issued August 28, 1975, as follows:

92-day bills (to maturity date) in the amount of $3,100,000,000, or thereabouts, representing an additional amount of bills dated May 29, 1975, and to mature November 28, 1975 (CUSIP No. 912793 XZ4), originally issued in the amount of $2,802,710,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,200,000,000, or thereabouts, to be dated August 28, 1975, and to mature February 26, 1976 (CUSIP No. 912793 YV2).

The bills will be issued for cash and in exchange for Treasury bills maturing August 28, 1975, outstanding in the amount of $5,352,665,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,578,430,000 These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, August 25, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

(OVER)

securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on August 28, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing August 28, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Contact: Helene L. Melzer
964-8706

FOR IMMEDIATE RELEASE August 20, 1975

ARTHUR D. KALLEN NAMED

TREASURY'S BUDGET CHIEF

Assistant Secretary (Administration) Warren F. Brecht has announced the selection of Arthur D. Kallen as Director of the Office of Budget and Finance. Mr. Kallen fills the vacancy left by Edward J. Widmayer, who retired last December.

In announcing the appointment, Mr. Brecht stated: "The Director of the Office of Budget and Finance is one of the most vital and influential positions in the entire Treasury Department. Mr. Kallen comes highly recommended by his past and present superiors at the Office of Management and Budget. We in Treasury consider ourselves most fortunate in attracting an individual of his caliber."

Until his Treasury appointment, Mr. Kallen had been deputy division chief for the Community and Veterans Affairs Division of the Office of Management and Budget since 1973. He was responsible for administering programs relating to budgeting and management for key Federal agencies, including the Departments of Transportation and Housing, the Veterans Administration, Federal Communications Commission, Action, the District of Columbia and civil rights agencies. He developed budget policies, legislative proposals and management improvements for agencies and advised top OMB and White House officials on those issues.

In his long association with OMB and its predecessor, the Bureau of the Budget, dating back to 1960, Mr. Kallen also worked on budget and management policies for the Departments of Justice, Treasury, the Post Office, the Civil Service Commission and the Executive Office of the President.

(more)

The new Treasury Budget Director was born in Chicago April 27, 1927, attended Wilson Junior College and earned a master's degree in political science at the University of Chicago in 1951.

Mr. Kallen began his government service as a management intern in the Navy Department's Bureau of Ships in 1951 and served as a training director and a computer systems analyst, moving on to management analyst at the Bureau of the Budget in 1960 where he was affiliated with the Government Organizations Branch.

As Treasury's Budget Officer, he will supervise budget planning and implementation for the Department and coordinate budget operations for all the bureaus.

Mr. Kallen is married to the former Vivian Margaris also of Chicago. They have two children and reside in Arlington, Virginia.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE August 20, 1975 80

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2,210,000,000 of 52-week Treasury bills to be issued to the public, to be dated August 26, 1975, and to mature August 24, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 3 tenders totaling $1,020,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	92.620	7.299%	7.86%
Low -	92.570	7.348%	7.91%
Average -	92.588	7.331%	7.89%

TOTAL TENDERS FROM THE PUBLIC RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted
Boston	$ 140,155,000	$ 46,605,000
New York	4,426,835,000	1,585,880,000
Philadelphia	28,120,000	3,120,000
Cleveland	276,080,000	113,080,000
Richmond	87,850,000	20,100,000
Atlanta	17,245,000	13,145,000
Chicago	782,740,000	267,720,000
St. Louis	55,105,000	11,105,000
Minneapolis	108,665,000	35,665,000
Kansas City	33,105,000	20,605,000
Dallas	28,980,000	6,980,000
San Francisco	453,220,000	86,245,000
TOTAL	$6,438,100,000	$2,210,250,000

The $2,210,250,000 of accepted tenders includes 23% of the amount of bills bid for at the low price and $189,070,000 of noncompetitive tenders from the public accepted at the average price.

In addition, $679,165,000 of tenders were accepted at the average price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries 202-964-2615

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FOR IMMEDIATE RELEASE   August 21, 1975

SUMMARY OF LENDING ACTIVITY

August 1 - August 15, 1975

Federal Financing Bank lending activity for the period August 1 through August 15, 1975, was announced as follows by Roland H. Cook, Secretary:

On August 1, 1975, the Government of the Republic of China borrowed $10.1 million from the FFB under the Foreign Military Sales Act, guaranteed by the Department of Defense. The interest rate is 8.23%, and the loan matures September 30, 1983.

The General Services Administration made the following drawings against commitments with the Bank:

Date	Amount	Interest Rate	Maturity
August 4	$2,500	8.605%	6/15/05
August 12	$119,178	8.695%	11/15/04

The Department of Health, Education, and Welfare made two drawings against its commitment with the Bank:

Date	Amount	Interest Rate	Maturity
August 5	$3,600,000	8.635%	7/1/99
August 8	$1,475,000	8.725%	7/1/99

On August 8, 1975, the FFB made its first advance under a June 1, 1975 agreement with Amtrak, in connection with a sale and lease back agreement by Amtrak of 25 General Electric diesel electric locomotives. The first advance, in the amount of $838,853.96 and at a rate of interest of 7.92%, was to finance the purchase of two locomotives. The advance will be repaid in equal installments with a final maturity of 1988.

On August 11, the US Railway Association borrowed $10 million from the Bank under USRA Note #3 which matures on August 25, 1975. The rate of interest is 6.827%.

- Over -

The FFB made the following loans to electric utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Interest Rate	Maturity
August 13	Colorado-Ute Electric Association, Inc.	$ 3,900,000	8.14%	8/13/77
August 15	Oglethorpe Electric Membership Corp.	$81,608,000	8.68%	12/31/09

Interest payments are made quarterly on the above REA loans.

On August 15, Amtrak, the National Railroad Passenger Corporation, borrowed $10 million from the Bank against its $100 million line of credit which matures September 30, 1975. The interest rate is 6.734%.

Federal Financing Bank loans outstanding on August 15, 1975 total $14 billion.

Highest rate on a Treasury note since 8/8/74 yield 8.75% on a 6-year note.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR IMMEDIATE RELEASE August 21, 1975

RESULTS OF AUCTION OF 4-YEAR 1-MONTH TREASURY NOTES

The Treasury has accepted $2.0 billion of the $4.3 billion of tenders received from the public for the 4-year 1-month notes, Series F-1979, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	8.45% 1/
Highest yield	8.56%
Average yield	8.54%

The interest rate on the notes will be 8-1/2%. At the 8-1/2% rate, the above yields result in the following prices:

Low-yield price	100.145
High-yield price	99.773
Average-yield price	99.840

The $2.0 billion of accepted tenders includes 90 % of the amount of notes bid for at the highest yield and $0.5 billion of noncompetitive tenders accepted at the average yield.

In addition, $50 million of tenders were accepted at the average-yield price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

1/ Excepting 13 tenders totaling $617,000

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FOR RELEASE AT 4:00 P.M. August 22, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,300,000,000 , or thereabouts, to be issued September 4, 1975, as follows:

91-day bills (to maturity date) in the amount of $3,100,000,000, or thereabouts, representing an additional amount of bills dated June 5, 1975, and to mature December 4, 1975 (CUSIP No. 912793 YA8), originally issued in the amount of $2,700,995,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,200,000,000, or thereabouts, to be dated September 4, 1975, and to mature March 4, 1976 (CUSIP No. 912793 YW0).

The bills will be issued for cash and in exchange for Treasury bills maturing September 4, 1975, outstanding in the amount of $5,303,550,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $1,904,575,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Friday, August 29, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

(OVER)

securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on September 4, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 4, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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MEMORANDUM FOR THE PRESS August 22, 1975

Edwin H. Yeo, III, Under Secretary for Monetary Affairs of the Department of the Treasury, will hold a press briefing at 3:30 p.m., Wednesday, August 27, in Room 4121 Main Treasury. The briefing will provide background on international monetary issues and the IMF/IBRD annual meetings scheduled to be held the first week of September.

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Contact: H.C. Shelley
x8256

FOR IMMEDIATE RELEASE

August 25, 1975

TREASURY ANNOUNCES PRELIMINARY COUNTERVAILING DUTY DETERMINATION

Assistant Secretary of the Treasury David R. Macdonald announced today a preliminary determination in the countervailing duty investigation of glazed ceramic wall tile from the Philippines. Under the U.S. Countervailing Duty Law (19 U.S.C. 1303), the Secretary of the Treasury is required to issue a preliminary determination within six months after a petition has been received. The petition in this case was received on February 26, 1975, and a notice to that effect was published in the Federal Register of April 9, 1975. The Treasury has until February 26, 1976 in which to issue a final determination.

Treasury's preliminary affirmative determination indicates that bounties or grants are being paid or bestowed within the meaning of the statute. If a final affirmative determination is made, the Countervailing Duty Law requires the Secretary of the Treasury to assess an additional duty on merchandise benefiting from such bounties or grants.

Notice of this action will appear in the Federal Register of August 26, 1975. During calendar year 1974, imports of glazed ceramic wall tile from the Philippines were valued at $1.6 million.

Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE W04-2041

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
REGARDING LOCKHEED AIRCRAFT CORPORATION'S FOREIGN
SALES ACTIVITIES AND THEIR IMPLICATIONS ON THE
EMERGENCY LOAN GUARANTEE PROGRAM
AUGUST 25, 1975, 10:00 A.M.

Mr. Chairman, my testimony concerns the Emergency Loan Guarantee program, and in particular the recent disclosures of secret payments made by Lockheed Aircraft Corporation, the sole borrower under the program, to officials of foreign governments.

Let there be no misunderstanding: the Emergency Loan Guarantee Board does not, and will not, condone illegal or unethical activities by American business, here or abroad. The Board condemns such actions in the strongest terms and is deeply concerned about the possible improper use of Lockheed's corporate funds and its impact on the guarantee program. We are disturbed that Lockheed's apparent long-standing practice of resorting to bribery to sell its products in foreign markets has escaped detection by the Board, and others monitoring the company's activities. We are distressed that Lockheed's management has apparently not been forthright with the Board and with Congress. As a Government official who has spoken out about the importance of maintaining the free enterprise system, I find Lockheed's actions deplorable. Lockheed's executives in making

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application for a Government benefit -- a guarantee of some of their borrowings -- have not disclosed what may prove to be material information to the Administration and the Congress. We recognize that very serious consequences are involved for Lockheed, for the aerospace industry, and for the loan guarantee program.

Before providing the Committee with an overview of the problem, let me summarize briefly the steps the Board is taking:

-- The Board has requested by letter that Lockheed: (1) confirm its oral understanding with the Board that it is to provide all material information concerning the bribes; (2) will request its auditor to furnish separately to the Board additional information regarding the transactions; and (3) furnish any additional information regarding the payments that the Board may deem necessary.

-- The Board has notified Lockheed that the Guarantee Agreement does not provide for any waiver of the Board's rights or remedies unless expressly waived in a writing signed by the Board. In addition, the acceptance of any certificates, representations, or other documents required to be furnished by Lockheed, under the Agreement, should not be deemed to constitute a waiver of any of the Board's rights.

-- As part of the Fiscal Agent's ongoing monitoring activities, the Board has requested that it prepare a current assessment of the Government's collateral under the Credit Agreement.

-- The Board has asked the Fiscal Agent to carefully consider the Expenditure Plans, which Lockheed furnished to the Board in connection with each drawdown of guarantee funds, to determine whether the Expenditure Plans should be regarded as false or incomplete in that no information regarding the bribes was provided.

-- The Board's staff has questioned past officials associated with the Guarantee program. None can recall any information coming to his attention which indicated that Lockheed was paying bribes to foreign officials.

-- The Board has requested that Lockheed's Agent Banks review the information in their possession to advise whether it indicates that Lockheed has been paying bribes.

-- The Board's staff is in the process of undertaking a complete review of its files, and has asked its Fiscal Agent to do the same, in order to confirm that the Board had no information about Lockheed's payments of bribes until June of this year.

-- The Board has requested that the General Accounting Office, which is required to audit any borrowers under the Emergency Loan Guarantee program and to report its findings to the Board, search its files to determine whether or not they contain any information regarding the payment of bribes by Lockheed.

-- The Board's staff met with the GAO staff on August 19 for the purpose of creating a cooperative program whereby the Board may obtain whatever additional information it deems necessary to assess its position under the Guarantee Act and the Agreements.

Lockheed's Disclosure

Let me turn now to a discussion of how the Board learned of the Lockheed bribes. The Board did not become aware that Lockheed had paid bribes to foreign officials until early June of this year. This information was first transmitted orally to the Board's staff by Lockheed's financial officers. They advised that while proxy materials had been cleared by the Securities and Exchange Commission staff in connection with the company's scheduled annual meeting on July 18, 1975, Lockheed was unable to mail these materials to its shareholders. This was because Lockheed's independent auditor, Arthur Young and Company, would not certify Lockheed's financial statements, unless the company acknowledged that bribes had been paid to foreign officials and that the extent of such payments was defined. The Board's staff was told that the company's financial officers and its independent auditor were reviewing foreign sales practices and that the Board would be kept advised. The Board was aware that Lockheed paid sales commissions to foreign consultants. This practice was not cause for alarm in that it is a usual way of doing business. Of course, the Board recognizes the difference between legitimate and appropriate finders' fees and commissions to sales consultants and bribes paid to governmental officials, either directly or through commissioned agents. As a result of its initial inquiries, the Board's staff was left with an impression that there were isolated instances of bribes and that the amounts involved, while large, were not significant when viewed in comparison with those reported to have been made by other corporations.

An allegation which has appeared in the press on June 6 by the Northrop Corporation that it had modeled a Swiss subsidiary utilized to facilitate payments to its agents after one established by Lockheed had triggered Arthur Young and Company's inquiry. Discussions between the Board's staff and Lockheed officials about these developments included the procedures Lockheed was following in its review of foreign bribes and the time period to be covered. The staff began to become concerned that the dollar amount of payments made by Lockheed was substantial and that bribery might have been in issue in more than a few isolated instances. Additionally, Lockheed advised that it had made political contributions of approximately $25,000 in one country, but that such contributions were legal under local law.

On June 16, the Board's staff met with the Arthur Young and Company partner in charge of the firm's audit of Lockheed to discuss what Arthur Young was doing in connection with its review of the Lockheed bribes and the company's foreign sales activities generally. This meeting reinforced the staff's concern as to the magnitude of payments made.

On June 17 the Board's staff and a representative of its Fiscal Agent, the Federal Reserve Bank of New York, met with Lockheed's Senior Vice President for Finance at Lockheed's headquarters to discuss matters further with him. The Lockheed official indicated that he and Arthur Young were making a thorough review of the transactions in issue with a view towards reporting their findings to Lockheed's Board of Directors on June 23. He also stated that the Guarantee Board's staff would be provided with all relevant information relating to payments by Lockheed to foreign officials. The staff recalls that it was at this meeting that it became aware of a letter, dated April 29, 1975, to Lockheed from the Securities and Exchange Commission staff requesting that the company respond to certain general questions regarding payments it may have made to officials of foreign governments.

Initial Response by the Board

Once it had learned of the SEC's inquiry, the Board's staff was kept advised by Lockheed on the status of this inquiry. The staff has also received information about an inquiry into Lockheed's activities by the Senate Subcommittee on Multinational Corporations. Further, Lockheed has furnished the Board with its submissions to the SEC describing a number of transactions known or suspected by the company to have involved payments to foreign officials. Copies of these submissions were furnished to the Chairman of this Committee by the Board on August 15, 1975.

The Board's staff visited Lockheed's corporate headquarters again on July 21 and 22 to review the most current information about the bribery inquiry and to evaluate Lockheed's operating progress on its L-1011 program.

Lockheed permitted the staff to review Arthur Young's report to Lockheed's Board of Directors, which described payments made to foreign officals and the establishment of a slush fund. The report substantiated the information contained in Lockheed's submissions to the SEC. The Emergency Loan Guarantee Board staff was informed by Lockheed officials that some bribes involved efforts to market the L-1011 aircraft.

At various times in mid- and late July, the Board's Executive Director, Edward C. Schmults, talked with each of the three Members of the Board to alert them of the magnitude of the problem. He also advised the Board Members that the staff was in the process of reviewing the Emergency Loan Guarantee Act and the Agreements between Lockheed and the ELGB to assess whether any violations or defaults have occurred by reason of Lockheed's foreign payments and what legal courses of action were available to the Board.

As this review developed in late July and early August, it became apparent that additional information was needed in order to determine whether the Guarantee Act or the provisions of Lockheed's agreements with the ELGB had been violated. Additional issues also had to be considered. These included the purposes underlying the Emergency Loan Guarantee Act, the Board's responsibilities under the Act, general U.S. policy with regard to bribery of foreign officials by U.S. corporations, and, finally, what actions the Board ought to pursue in response to these considerations. These considerations present difficult questions for the Board to resolve. Among issues to be addressed are:

1. How can the Board distinguish between proper commissions to sales consultants and instances where consultants use a portion of their fees to bribe foreign governmental officials?

2. With the purpose of the Guarantee program being the preservation of Lockheed's viability, should the Board take action which (a) might put the company at a competitive disadvantage with respect to both other U.S. corporations and foreign competitors, or (b) might cause Lockheed to fail, especially where rules have yet to be prescribed?

3. Would Board action have broad application affecting the ability of U.S. corporations to compete in certain parts of the world, given local business practices and customs?

In fact, the Board met earlier today in order to continue its attempts to resolve these difficult questions. Parenthetically, the Board reviewed a routine rollover of $30 million of guaranteed notes due today.

The Board's Monitoring Functions

I think it would be useful at this point to explain the procedure which the Board has followed to keep apprised of developments regarding Lockheed. In passing on the Emergency Loan Guarantee program, Congress had, as one of its primary purposes, a desire to avoid creating another bureaucracy. For this reason, among others, Congress directed the General Accounting Office to audit any borrower under the program and to report the results of its audits to the Board and to the Congress. In this connection, I want to acknowledge the controversy that took place in 1972 with regard to the GAO's role. Treasury General Counsel Pierce contended that the GAO did not have the statutory authority to review Board internal records relating to its own decision making. In any event, and in response to the position taken by Senator Proxmire and then Chairman Sparkman of this Committee, the Board has provided the GAO with every record in its files that has been requested. I want to point out that there was no question ever raised that the GAO could not inquire fully into Lockheed's own affairs. In fact, the Board demanded a provision in the Guarantee Agreement whereby Lockheed is required to provide the GAO full access to its records.

The Board is supported by a very small staff and by its Fiscal Agent, the Federal Reserve Bank of New York, which utilized officers and employees of its Credit and Discount Department. The largest the Board's staff has been was three full-time employees in the spring of 1973. The staff's efforts are supplemented on a when-needed basis by personnel from the Board Members' respective agencies. At the present time, the staff is comprised of an Executive Director, Edward C. Schmults, who also is the Under Secretary of the Treasury, and a full-time Secretary, Alan Vinick. A technical consultant and an attorney, assigned from Treasury, also work for the Board on a part-time basis.

The Board's staff and the Fiscal Agent have continuously monitored Lockheed's operations, particularly since the company experienced results in early 1972 which fell far short of expectations. Monitoring activities have included review of various Lockheed financial and production data, and regular meetings with Lockheed officials, with Lockheed's independent auditor (Arthur Young and Company), with customer airlines, and with lending banks.

The Board's staff has made frequent trips to Lockheed's facilities to review various programs in order to better assess the financial statements provided by the company. In the last two and a half years, the staff has spent approximately 158 days reviewing Lockheed's operations at the company's facilities. This figure excludes numerous visits by the Fiscal Agent's representatives to Lockheed's facilities.

Others have also been actively involved in reviewing Lockheed's circumstances. The Agent Banks advised us that, based on a preliminary review of the information in their files, their monitoring activities found no indication of any bribes. Further, Arthur Young and Company, Lockheed's independent auditor, which employs in excess of 200 people, or 25,000 hours, to perform Lockheed's yearly audit, has orally advised us that until early June 1975 they too were unaware of the fact that Lockheed had paid bribes. The point that I want to make is that if a system of making payoffs is well contrived, monitoring a multi-billion-dollar corporation's activities in a diligent fashion will usually not uncover such practices.

Additionally, the Board has never sought in its monitoring of Lockheed the task of verifying all of the company's cash receipts and expenditures, but rather has relied upon such information being furnished to it in the form of consolidated financial statements or program financial statements by the company's financial officers, its independent public auditors, and the General Accounting Office. The Board's role in monitoring Lockheed has been through a credit analysis approach which relies upon internal and independent auditors, the normal practice employed by commercial lenders.

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Extension of the Guarantee

As you are aware, the Guarantee Board recently approved a proposed refinancing plan for Lockheed which extended the Government's guarantee for two years through December 31, 1977. I think it should be made clear that when the Board met on May 17, 1975, to reach this decision, it had no knowledge of Lockheed's payments to foreign officials.

At its May meeting the Board reviewed Lockheed's draft financial statements for the year ended December 29, 1974. The Board's staff was advised by Lockheed that these statements were in the form as to which Arthur Young and Company was prepared to issue its audit certification subject only to completion of Lockheed's pending refinancing plan. In fact, at the time the formal agreements were executed, on May 20, the Board was furnished with certified financial statements signed by Arthur Young and Company, which, except for minor modifications, were identical to those supplied to the Board for its May 17 meeting.

The Board's staff and Fiscal Agent also reviewed the five-year financial forecast completed by Lockheed in April of this year. This financial forecast completed by Lockheed in April of this year. This financial forecast was discussed thoroughly at the Board's meeting. No reference was made in the forecast about the payment of the bribes by Lockheed to procure foreign business.

In addition, Lockheed's Chairman and its Senior Vice President for Finance appeared before the Board on May 17, 1975, to discuss the risks associated with the company's business and to review the refinancing plan. Again, no mention was made of the company's payments to foreign officials. I emphasize that this was at the time that Lockheed had in its possession a letter from the SEC's staff asking for information about bribes paid by the company. It was also during this time that Senator Church's Subcommittee on Multinational Corporations was holding hearings on foreign bribes paid by U.S. corporations.

Because of allegations that had appeared in the press about other corporations, the Board's staff, in the process of briefing itself and the Board, asked Lockheed whether it had "laundered" funds through overseas subsidiaries for the purpose of making political contributions in this country. Lockheed's response to this question was that no such activity had occurred. In retrospect, it would have been advantageous to inquire as to whether Lockheed had made any payments to foreign officials. That question was not, however, considered at the time.

Concluding Remarks

From Lockheed's public statements, as well as from information which we received from Lockheed, it is clear that bribes had been paid prior to the Guarantee program. I want the record to reflect that all of the Members of the Guarantee Board are not only deeply concerned by Lockheed's failure to have advised us of these practices, but are distressed that the Government has been involved, even indirectly, in the L-1011 program if, as intimated by Lockheed, that program is partially dependent upon bribes for its success. Whether laws of the United States have been violated is to be determined following the reviews underway by the various Congressional committees and the agencies investigating these questions. A broader policy, however, is at stake here. The Emergency Loan Guarantee Board has been put in the position of seeking to protect the Government's interest as guarantor for creditors of Lockheed. In so doing, it finds itself working with a company that alleges that foreign payments of this nature are a normal and necessary method of doing business abroad in the highly competitive aerospace market. While the Board does not believe it is the appropriate agency to develop rules or standards of general applicability, it is formulating its own assessment of what has transpired in order to determine an appropriate course of action under the Guarantee Act. This assessment will

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include a balance of competing interests between the public's right to know and the alleged potential adverse impact of detailed disclosure on Lockheed's outstanding orders. Congress likewise, has a responsibility to determine what actions it should take in connection with the Government guarantee of loans to Lockheed.

When the Board has completed its review it will then be in a position to recommend whether a change in the Guarantee legislation is desirable.

Mr. Chairman, let me repeat what the Board is doing. In accordance with our responsibilities under the Act, we have sought all pertinent information from Lockheed, and others, so that we can address the underlying issues thoroughly and intelligently. We are hesitant to prejudice our position by presupposing what our response will be until we are sure of the facts, are informed of the conclusions of the SEC investigation, and have evaluated our own responsibilities under the Act. At that time, the Board will take whatever actions it concludes are warranted in response to Lockheed's misconduct.

Mr. Chariman, a crucial challenge facing us today is the preservation of the free enterprise system. Practices such as bribes made to secure foreign business can only increase the distrust and suspicion that is straining our national institutions. To argue that bribes to foreign officials are necessary for effective competition is contrary to every principle under the free market system. The Emergency Loan Guarantee Board wants to go on record as condemning these practices.

he Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE

August 25, 1975
CONTACT: Alan Vinick
964-5512

EMERGENCY LOAN GUARANTEE BOARD
MEETS TO CONSIDER IMPLICATIONS OF
LOCKHEED'S IMPROPER PAYMENTS TO FOREIGN OFFICIALS
AND POLITICAL ORGANIZATIONS

The Emergency Loan Guarantee Board met today for the purpose of considering what actions it should take in response to the recent disclosures by Lockheed that the company had made certain improper payments to foreign governmental officials and political organizations.

Lockheed's Chairman, Daniel J. Haughton, and other company officials, met with the Guarantee Board and advised that a policy which would prohibit the company from making improper payments to foreign officials or political organizations, directly or indirectly, will be considered at a meeting of Lockheed's Board of Directors in early September. For the present, Mr. Haughton stated that Lockheed management has suspended all payments to consultants.

Meeting alone later, the Guarantee Board decided that unless directed by Congress to the contrary it will require that Lockheed not make any future improper payments, directly or indirectly, to foreign governmental officials or political organizations, including any such payments presently committed. Specific measures directed to this essential objective are in the process of being worked out.

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE August 25, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.1 billion of 13-week Treasury bills and for $3.2 billion of 26-week Treasury bills, both series to be issued on August 28, 1975 were opened at the Federal Reserve Banks today. The details are as follows:

ANGE OF ACCEPTED OMPETITIVE BIDS:	13-week bills maturing November 28, 1975			:	26-week bills maturing February 26, 1976		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	98.335 a/	6.515%	6.74%	:	96.436	7.050%	7.43%
Low	98.307	6.625%	6.85%	:	96.413	7.095%	7.48%
Average	98.315	6.593%	6.82%	:	96.418	7.085%	7.47%

/ Excepting 2 tenders totaling $5,220,000

Tenders at the low price for the 13-week bills were allotted 73%.
Tenders at the low price for the 26-week bills were allotted 93%.

TAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	:	Received	Accepted
Boston	$ 44,885,000	$ 42,885,000	:	$ 50,775,000	$ 18,775,000
New York	3,508,095,000	2,425,215,000	:	4,979,035,000	2,802,605,000
Philadelphia	60,335,000	58,335,000	:	41,320,000	16,320,000
Cleveland	72,210,000	67,210,000	:	272,230,000	143,015,000
Richmond	62,425,000	51,575,000	:	72,690,000	30,190,000
Atlanta	51,650,000	47,335,000	:	51,000,000	30,170,000
Chicago	293,430,000	164,380,000	:	367,265,000	45,510,000
St. Louis	55,700,000	44,200,000	:	49,480,000	22,430,000
Minneapolis	22,695,000	9,695,000	:	27,835,000	4,835,000
Kansas City	47,595,000	45,595,000	:	39,300,000	31,335,000
Dallas	40,495,000	35,495,000	:	43,195,000	18,195,000
an Francisco	185,980,000	108,980,000	:	250,415,000	37,105,000
TOTALS	$4,445,495,000	$3,100,900,000 b/		$6,244,540,000	$3,200,485,000 c/

Includes $495,975,000 noncompetitive tenders from the public.
Includes $307,795,000 noncompetitive tenders from the public.
Equivalent coupon-issue yield.

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UNITED STATES DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

PRESS CONFERENCE

Room 4121, Main Treasury Building
15th and Pennsylvania Ave., N.W.
Washington, D.C.

Wednesday, August 27, 1975

Convened at 3:45 p.m.

PARTICIPANTS:

Lisle Widman, Deputy Assistant Secretary for International Monetary and Investment Affairs
John Bushnell, Deputy Assistant Secretary for Developing Nations -- Finance
Sam Cross, United States Executive Director, International Monetary Fund
Charles A. Cooper, Assistant Secretary for International Affairs
Edwin H. Yeo, Under Secretary for Monetary Affairs

views. We are particularly interested in discussing with our colleagues the nature of the recovery in the United States economy and our views on how that recovery can best be facilitated for the good of us, Americans, and for the good of the world community.

I am open to your questions.

QUESTION: Mr. Yeo, there has been some suggestion that the package that was discussed in Paris, the split issue, is the government willing to split the package.

MR. YEO: We are reviewing the possibility of some unbundling for the purposes of discussion, [redacted] As you know from our country's standpoint a final conclusion on parts of all three issues involves legislation.

So as a legislative matter it is quite unlikely that we can unbundle. But for purposes of discussion we are reviewing the possibility of unbundling. We are interested in a flexible framework for talks. We are interested in reviewing anything that tends to add rigidity to our conversations.

For that reason we are reviewing the possibility of unbundling.

QUESTION: Does that foreclose the possibility of an agreement on one or two of the issues in the negotiations?

MR. YEO: That does not foreclose it, but what it says is we are reviewing the possibility of unbundling.

QUESTION: Is it possible we could get an agreement on gold questions or the various details here this coming week?

MR. YEO: It is possible we can reach near agreement on gold or on any of the other three economic discussions, quotas, exchange rate. That is certainly possible. But the question remains whether or not it is possible to put together some agreements until we have a package as a whole.

As I said we are reviewing that aspect of it with an eye to what we can do to open up conversations and provide a flexible framework for them.

QUESTION: Will this review be completed before the meetings start?

MR. YEO: Yes.

QUESTION: You will go to the Saturday interim meeting knowing whether or not you will unbundle?

MR. YEO: That is correct, and if so, where.

QUESTION: What does that mean?

MR. YEO: There are any number of ways these issues can be unbundled. We have four issues. You have better math mind than I have, but what is it -- square root?

QUESTION: What about the fifth issue of oil, and the sixth issue of developing countries? You mentioned four issues.

MR. YEO: They are certainly important issues. I was addressing the question in terms of the four explicit issues that concern the interim committee. But in terms of the total meetings there are the problems of developing countries. Problems that are underlined by the experience we have had in the last 18 months in petroleum, and underlined by a second phenomenon, which is the largest, in terms of amplitude, and broadest in terms of pervasiveness, inventory cycles since 1921.

It is these circumstances that make the challenges and problems of developing countries particularly relevant to our meetings that are coming up. I think you will see in our conversations and ideas that we have had this aspect much in mind.

QUESTION: It used to be the interim committee, (inaudible). There is a possibility I gather of the form of taking risks and responsibility for the system of compensating balances for the developing countries. Is this not going to be discussed with the new U.S. proposals?

MR. YEO: I think it will be included in the general formal and informal discussions. The principal things within the interim committee we hope to concentrate on: (1) economic discussions. It is clear there is a felt need for economic consultations and we have a readymade vehicle, a group, a continuing group in which these consultations can take place.

QUESTION: What do you expect those economic consultations to lead to? It is a little vague the way you have put it.

MR. YEO: I think a principal achievement, certainly an objective would be more comprehensive understanding on all of our parts, ours included, of the factors that are affecting the world economy and its major constituent parts.

This is not just a matter of talking economics. We are in an unusual period, an unprecedented period. And a shared perception of our problems, of our challenges and problems is [redacted] a prerequisite for effective individual action.

For example, why can we observe in many developed economies a shift in liquidity preference on the part of individuals? Why are we experiencing such high savings rates?

This is no small question. It is a difference between recovery and no recovery in several key economies. Is it a structural change or is it a temporary change? That in turn is no small question. Because if it is a temporary change when will the shift in liquidity preference go the other way. Or in other words, when will we have a consumer boom. Because that is what it entails.

Will it be, under Murphy's law, at the worst possible time? This is something we need a shared understanding about. [redacted] The potential power of shifts in Savings [redacted] rates far exceeds the [redacted] impact on aggregate demand.

of the changes in fiscal policies which are discussed day by day by day continuously. It is a very powerful factor.

QUESTION: Is this proposal meant to be an alternative suggestion by the President as to the summit conference on economic issues?

MR. YEO: No. It is not meant to be an alternative to anything. It comes from the very specific types of concerns that I mentioned in a sense that at this time these are appropriate -- urgent -- items for discussion within the context of the appropriate group.

QUESTION: Would you go on and finish the list you started awhile ago one should concentrate on, first economic consultations? What is second, third and fourth?

MR. YEO: Economic consultations, this was within the interim committee. Economic consultations, the exchange rate question, the gold question, the quota question, all are up for discussion within the broader context of this community of meetings.

The problems of LDCs I think you will find will receive a very high priority.

QUESTION: Do you expect compromise will be struck on the exchange rate question between d'Estaing and the U.S.?

MR. YEO: We are negotiating and that process implies some ultimate accommodation. I think there will be an ultimate accommodation.

QUESTION: Can you be specific at all?

MR. YEO: No, ma'am.

QUESTION: Will the G-5 meet, and if so, when and where?

MR. YEO: One of the characteristics of the meetings we are going into, and one of the values is that there are a number of bilateral meetings, multilateral meetings, and opportunity for discussion, and I assume that which has characterized past meetings will characterize this one.

QUESTION: Where will the meetings be held? Will it be a dinner? Will it be a Camp David thing, or what?

MR. YEO: There will be a number of meetings on an informal and ad hoc basis. As you well know they will be held in corridors, at dinner parties, and elsewhere.

QUESTION: Will you say something about the spirit with which you will approach this exchange rate system? Is it along the way you recently outlined, or the way the Secretary said about floating -- Is there any change or any possibility for an approach to the French relaxation of their stand on that?

MR. YEO: It is our feeling that what we ought to have is a voluntary system. That those who wish to float can float, and those who wish to peg their currencies in terms of a fixed relationship can operate with a fixed exchange rate system.

We also [redacted] believe that one alternative ought not to appear to be second-class or transitory. It is our interpretation, and I think it is becoming shared by many people, that the exchange rate system that we have, the voluntary system, and particularly the floating aspect of it, has served the world well.

It is our view that stability is a result — particularly financial stability — is a result of the economic equilibrium. That you cannot impose financial stability in an economy characterized by economic disequilibrium.

It is our view that the world is wary of broken promises, of promises of superimposed stability that lasts for a month, a year and then you blink your eyes and they are gone. You have devaluations. We don't think it is politically desirable to establish a system that sets the stage for additional broken promises. We think [redacted] we can make a contribution in the direction of economic and of political stability by operating within the context of a system that is elastic enough to function in the kinds of conditions that have characterized the last three years.

Moreover we think, those of us, and particularly I think the President, the Secretary, those of us who set a high priority on price stabilization, which I think is really a euphemism for economic equilibrium, feel that concentration on a mechanical, although important, aspect distracts attention from the main event which is the development of domestic policies that will lay down the concrete, provide the basis for price stabilization and economic equilibrium. And in turn provide the basis for sustainable economic recovery.

QUESTION: I am curious as to why you feel these meetings of the interim committee would be ~~in~~appropriate for discussion of matters such as the level of savings rates in various countries given the complexity of the other issues before the committee and the regular OECD meetings to normally economic questions of that sort.

Could you explain, perhaps, in more detail why you think this is an appropriate topic? I am not questioning its importance.

MR. YEO: Given its importance, we have established its importance, and given the importance of the participants in the interim meeting why is this not a good forum, a good context within which to discuss these questions? It seems to me it is very appropriate and will not preclude the necessary energy and focus on other issues.

QUESTION: I am curious as to what the interim committee might conclude might be relevant to questions of savings rate. What might come out of that committee given its various mandates?

Obviously we are all concerned about the state of the world economy, and the state of that economy is relevant to these other issues. But are you suggesting what this interim committee has to do in order to solve questions of the exchange rates, role of gold, and so on? They must first find a way to get the economic --

MR. YEO: I am not suggesting one as a prerequisite to the other, but I am also not suggesting they are not in some sense interrelated. Economic discussions are certainly not a prerequisite in terms of other areas. The reasons for discussions of this nature at the interim committee level are (a) it is very important, (b) it is an appropriate forum in terms of its composition, an appropriate group.

If you attach the priority we do to these discussions, we think it is a meaningful addition to the agenda. In terms of what will be accomplished, will there be an agreement on savings rates? No, there will not be.

Will there be a better understanding as a result? I am sure. Will there be a shared perception? It is probable. That in my mind represents the opportunity at this time for a significant advance.

QUESTION: A two-part question. In addition to savings rates what might be some other issues to come up? And secondly, have you sounded out other members of the committee? Do they agree it is an appropriate forum for discussion?

MR. YEO: I think there is general agreement it is an appropriate issue.

QUESTION: How is it appropriate? Is it because of participation of LDCs in it?

MR. YEO: It is appropriate because of its significance. It is appropriate because of its importance at this time.

QUESTION: There was another part to this question. What might be other subjects that would come up in the economic discussion?

MR. YEO: I gave savings rates, not as a subject but as an example in an attempt to respond to the need to be specific. The subject is going to be the various states of various principal economies in the world. This is what we are all concerned and interested in. What is going on in the United States? What is going on in Germany, France, and a number of other significant to all of those economices.

And that this is an unusual time is symbolized only by the savings rate mechanism. This is not a conference to discuss savings rates.

QUESTION: In discussing the state of the economy and various economies what do you hope to be able -- do you hope to be able to prove something relative to these issues such as exchange rates? Do you have to be able to solve some of these problems such as exchange rates?

MR. YEO: Not in the direct sense. As I said this is not a prerequisite. It contributes to better understanding which in term facilitates negotiations in other areas.

Are we looking at issues through the same lens? Through the same outlook in terms of economic prospects, economic problems? A shared perception of where the world's economy is now facilitates understanding and therefore agreement.

QUESTION: Mr. Yeo, you spend a good deal of your time talking about the state of the various economies of the world. Will you not reduce the chances you will have time to solve some of the issues on the specific issues?

MR. YEO: No, I do not think so. As a matter of fact I think it could go quite the other way. Economic unanimity is not prerequisite for agreement on the other principal items of business on the agenda.

On the other hand it can facilitate agreement. For example, do we perceive as a group continued stagnation? I don't personally. This has an impact on some of the other areas under consideration.

There is a need for a more complete understanding, a dialogue of shared perception and we think it is quite important.

QUESTION: I am thinking in the practical terms of the time available for the ministers to get together and discuss things, and I can easily envision you spending all of the time discussing these very broad, diffuse complex questions of the world economy and never coming to grips with such things as exchange rates and gold.

MR. YEO: The intention is the opposite.

QUESTION: Suppose you come to agreement that there is a general level of stagnation. Could you envision the interim committee making any recommendations to deal with them?

MR. YEO: I am not sure the interim committee would make any recommendations that would take the form of an announcement. But I am reasonably sure if that were the perception that it would have an impact on various country policies.

I will take one more question.

QUESTION: You always have discussions at these meetings on the general state of world economies. The communiques are always full of information about world economies. I fail to see what is new about your proposal except right at the beginning of this press conference you mentioned there might not be announcements. And the suggestion one comes away with you will come out with a long communique again about the state of the world economy and no detailed statement on anything.

Is this a false conception?

MR. YEO: I think so. That is not the intention at all. The intention is not to load the discussions with very general economic review type conversation.

The intention is to move forward, our hope is to move forward on the four issues. And in particular the three issues that have been before the committee for some months.

By the same token it seems to me we could all agree it is appropriate to include in our discussions, perhaps, in greater depth than in the past and with more structure than in the past, a dialogue, conversations on principal developments in key world economies.

It seems to me that we would almost be remiss if that were not on the agenda. And I don't mean to suggest that we are taking international the idea of crowding out.

Thank you very much.

(Conference concluded at 4:21 p.m.)

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE August 27, 1975

TREASURY RELEASES FINAL BUDGET RESULTS FOR FISCAL YEAR 1975

Attached is the Final Statement of Receipts and Outlays of the United States Government for Fiscal Year 1975. The final budget deficit is $43,604 million as compared to the preliminary published deficit of $44,212 million, a decrease of $608 million. The change is attributable to a net increase in receipts of $76 million and a net decrease in outlays of $532 million. Each year there are differences between the preliminary and final; however, this year's difference is higher than normal due to an adjustment of $427 million relating to food stamp program outlays. The remaining changes result from giving effect to final transactions (including many overseas transactions) of Government disbursing, collecting and administrative agencies, which could not be reported in the preliminary statement.

WS-377

Final[1] Monthly Treasury Statement of

Receipts and Outlays of the United States Government

for period from July 1, 1974 through June 30, 1975

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TABLE I--TOTALS OF BUDGET RESULTS AND FINANCING (IN MILLIONS)

Fiscal Year	Budget Receipts and Outlays			Means of Financing			
	Receipts	Outlays	Budget Surplus (+) or Deficit (-)	By Borrowing from the Public	By Reduction of Cash and Monetary Assets Increase (-)	By Other Means	Total Budget Financing
Actual 1975 (twelve months)	$280,997	$324,601	-$43,604	$50,853	-$320	-$6,929	$43,604
Comparative data:							
Actual 1974 (full year)	264,932	268,392	-3,460	3,009	2,519	-2,068	3,460
Estimated 1975[2]	280,963	323,612	-42,649	50,800	2,700	-10,851	42,649
Estimated 1976[2]	299,000	358,900	-59,900	73,900	....	-14,000	59,900

TABLE II--SUMMARY OF BUDGET RECEIPTS AND OUTLAYS (In thousands)

Classification	Actual This Fiscal Year to Date	Budget Estimates Full Fiscal Year[2]
RECEIPTS		
ndividual income taxes	$122,385,980	$121,648,000
'orporation income taxes	40,621,179	41,000,000
ocial insurance taxes and contributions:		
Employment taxes and contributions	75,204,416	75,147,000
Unemployment insurance	6,770,706	6,887,000
Contributions for other insurance and retirement	4,465,868	4,474,000
ixcise taxes	16,550,686	16,536,000
state and gift taxes	4,611,125	4,440,000
'ustoms	3,675,532	3,770,000
liscellaneous	6,711,349	7,061,000
Total	280,996,840	280,963,000
OUTLAYS		
egislative Branch	726,049	742,896
he Judiciary	283,754	308,127
xecutive Office of the President	92,826	108,674
unds Appropriated to the President:		
International security assistance	994,262	1,266,600
International development assistance	1,556,625	1,624,149
Other	1,020,996	1,022,947
epartment of Agriculture	9,724,876	10,333,818
epartment of Commerce	1,582,926	1,630,997
epartment of Defense - Military	85,420,124	85,885,000
epartment of Defense - Civil	2,051,164	2,167,331
epartment of Health, Education, and Welfare	112,410,756	112,188,536
epartment of Housing and Urban Development	7,488,207	5,707,227
epartment of the Interior	2,161,594	2,190,627
epartment of Justice	2,066,906	2,061,192
epartment of Labor	17,648,568	17,444,299
epartment of State	844,292	965,363
epartment of Transportation	9,246,562	9,328,514
epartment of the Treasury:		
Interest on the public debt	32,665,008	32,800,000
General Revenue Sharing	6,137,917	6,129,000
Other	2,374,224	2,290,629
ergy Research and Development Administration	3,198,199	3,128,267
vironmental Protection Agency	2,530,463	2,936,736
neral Services Administration	-624,054	-766,166
tional Aeronautics and Space Administration	3,266,708	3,267,200
terans Administration	16,575,008	16,726,121
lependent agencies	17,255,173	16,181,881
lowances, undistributed	....	....
distributed offsetting receipts:		
Federal employer contributions to retirement funds	-3,980,206	-3,998,105
Interest on certain Government accounts	-7,690,002	-7,759,517
Rents and royalties on the Outer Continental Shelf lands	-2,427,965	-2,300,000
Total	324,600,960	323,612,343
plus (+) or deficit (-)	-43,604,120	-42,649,343

footnotes on page 3.

rce: Bureau of Government Financial Operations, Department of the Treasury

TABLE III--BUDGET RECEIPTS AND OUTLAYS (In thousands)

Classification of Receipts	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Individual income taxes:									
Withheld	[3]$10,026,793			$122,071,480			$112,064,207		
Presidential Election Campaign Fund	314			31,657			27,592		
Other	[3]4,540,362			34,296,301			30,811,851		
Total--Individual income taxes	14,567,469	$1,444,362	$13,123,107	156,399,438	$34,013,458	$122,385,980	142,903,650	$23,952,018	$118,951,631
Corporation income taxes	10,241,243	663,693	9,577,550	45,746,660	5,125,481	40,621,179	41,744,444	3,124,789	38,619,654
Social insurance taxes and contributions:									
Employment taxes and contributions:									
Federal old-age and survivors ins. trust fund:									
Federal Insurance Contributions Act taxes	[3]4,016,054	....	4,016,054	46,904,675	269,650	46,635,025	40,835,583	392,557	40,443,026
Self-Employment Contributions Act taxes	[3]289,826	....	289,826	2,674,426	....	2,674,426	2,345,208	....	2,345,208
Deposits by States	[4]-347,504	....	-347,504	5,897,892	....	5,897,892	4,989,458	....	4,989,458
Total--FOASI trust fund	3,958,376	....	3,958,376	55,476,993	269,650	55,207,343	48,170,250	392,557	47,777,693
Federal disability insurance trust fund:									
Federal Insurance Contributions Act taxes	[3]527,343	....	527,343	6,158,949	35,350	6,123,599	5,259,583	50,217	5,209,366
Self-Employment Contributions Act taxes	[3]37,320	....	37,320	350,742	....	350,742	305,414	....	305,414
Deposits by States	152,334	....	152,334	775,875	....	775,875	632,646	....	632,646
Total--FDI trust fund	716,997	....	716,997	7,285,567	35,350	7,250,217	6,197,642	50,217	6,147,425
Federal hospital insurance trust fund:									
Federal Insurance Contributions Act taxes	[3]826,582	....	826,582	9,574,540	55,000	9,519,540	9,090,690	92,432	8,998,258
Self-Employment Contributions Act taxes	[3]46,025	....	46,025	391,251	....	391,251	357,588	....	357,588
Receipts from railroad retirement account	....	....	....	126,749	....	126,749	96,163	....	96,163
Deposits by States	238,401	....	238,401	1,214,297	....	1,214,297	1,099,424	....	1,099,424
Premiums collected for uninsured individuals	673	....	673	5,685	....	5,685	4,281	....	4,281
Total--FHI trust fund	1,111,680	....	1,111,680	11,312,522	55,000	11,257,522	10,648,146	92,432	10,555,714
Railroad retirement accounts:									
Railroad Retirement Tax Act taxes	139,450	28	139,421	1,489,548	214	1,489,333	1,411,830	497	1,411,333
Total--Employment taxes and contributions	5,926,502	28	5,926,474	75,564,630	360,214	75,204,416	66,427,868	535,703	65,892,164
Unemployment insurance:									
Unemployment trust fund:									
State taxes deposited in Treasury	62,125	....	62,125	5,299,041	....	5,299,041	5,263,812	....	5,263,812
Federal Unemployment Tax Act taxes	10,761	4,229	6,532	1,388,082	33,137	1,354,945	1,480,574	26,202	1,454,371
Railroad Unemployment Ins. Act contributions	23,466	....	23,466	116,719	....	116,719	118,362	....	118,362
Total--Unemployment trust fund	96,352	4,229	92,123	6,803,843	33,137	6,770,706	6,862,748	26,202	6,836,546
Contributions for other insurance and retirement:									
Federal supplementary medical ins. trust fund:									
Premiums collected for the aged	155,695	....	155,695	1,750,060	....	1,750,060	1,578,919	....	1,578,919
Premiums collected for the disabled	12,038	....	12,038	150,827	....	150,827	125,452	....	125,452
Total--FSMI trust fund	167,733	....	167,733	1,900,887	....	1,900,887	1,704,371	....	1,704,371
Federal employees retirement contributions:									
Civil service retirement and disability fund	233,827	....	233,827	2,495,159	....	2,495,159	2,290,206	....	2,290,206
Foreign service retirement and disability fund	1,210	....	1,210	12,952	....	12,952	9,579	....	9,579
Other	3,634	....	3,634	4,437	....	4,437	2,261	....	2,261
Total--Federal employees retirement contributions	238,671	....	238,671	2,512,548	....	2,512,548	2,302,047	....	2,302,047

Classification of RECEIPTS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts	Gross Receipts	Refunds (Deduct)	Net Receipts
Social insurance taxes and contributions--Continued									
Contributions for other insurance and retirement--Continued									
Other retirement contributions:									
Civil service retirement and disability fund	$6,113	....	$6,113	$52,434	....	$52,434	$44,925	....	$44,925
Total--Contributions for other insurance and retirement	412,517	....	412,517	4,465,868	....	4,465,868	4,051,343	....	4,051,343
Total--Social insurance taxes and contributions......	6,435,371	$4,257	6,431,114	86,834,341	$393,351	86,440,989	77,341,958	$561,906	76,780,053
Excise taxes:									
Miscellaneous excise taxes.........................	894,686	23,526	871,160	9,550,060	149,907	9,400,153	9,883,874	140,624	9,743,249
Airport and airway trust fund.......................	85,610	75	85,535	963,729	1,369	962,360	842,273	2,163	840,110
Highway trust fund	519,200	12,000	507,200	6,334,253	146,080	6,188,173	6,383,707	123,399	6,260,309
Total--Excise taxes	1,499,496	35,601	1,463,895	16,848,041	297,356	16,550,686	17,109,853	266,185	16,843,668
Estate and gift taxes..................................	425,177	13,412	411,765	4,688,079	76,954	4,611,125	5,100,675	66,034	5,034,641
Customs duties..	311,468	10,073	301,395	3,781,601	106,069	3,675,532	3,444,059	109,920	3,334,139
Miscellaneous receipts:									
Deposits of earnings by Federal Reserve Banks.......	483,769	....	483,769	5,776,550	....	5,776,550	4,845,423	....	4,845,423
Fees for licenses to import petroleum and petroleum products..	122,111	....	122,111	442,615	....	442,615	....	....	....
All other	[5] -97,986	57	-98,043	492,471	287	492,184	523,469	278	523,191
Total--Miscellaneous receipts....................	507,894	57	507,837	6,711,636	287	6,711,349	5,368,892	278	5,368,614
Total--Budget receipts..........................	33,988,119	2,171,456	31,816,664	321,009,795	40,012,956	280,996,840	293,013,531	28,081,131	264,932,401

FOOTNOTES

Note: Throughout this statement, details may not add to totals because of rounding.

[1]This statement contains the final figures showing budget results for fiscal year ending June 30, 1975. These figures reflect a net change of $608 million (decrease) in the deficit published in the preliminary statement. The differences between results as shown in this statement and the preliminary figures released in July result from giving effect to final transactions (including many overseas transactions) of Government disbursing, collecting, and administrative agencies, which could not be reported in the preliminary statement.

The principal changes in receipts are increases in individual income taxes, $64 million, estate and gift taxes increased $22 million and miscellaneous taxes decreased $36 million. Total receipts increased $76 million.

This year's difference in outlays in higher than normal due to an adjustment of $427 million relating to food stamp program outlays. Total outlays decreased $532 million.

[2]Based on revised estimates of the 1975 Budget released May 30, 1975, in the Mid-Session review of the 1976 Budget.

[3]In accordance with the provisions of the Social Security Act, as amended "Individual income taxes withheld" have been increased and "Federal Insurance Contributions Act taxes" have been decreased in the amount of $82,021,346 to correct estimates for quarter ended September 30, 1974, and prior. "Individual income taxes other" have been decreased and "Self Employment Contributions Act taxes" have been increased in the amount of $158,170,243 to correct estimates for the calendar year 1973 and prior.

[4]Includes $390,735,220 distribution to Federal Disability and Hospital Insurance Trust Funds.

[5]Represents reclassification of amount previously reported in the Budget receipt clearing account in the amount of approximately $248 million.

[6]The activity formerly included in the Office of Economic Opportunity Program has been transferred to the Community Service Administration.

[7]Food stamp program outlays have been revised in this final statement to reflect an adjustment of -$426,946,000 to the amounts reported in the preliminary June 1975 Statement.

[8]Amounts for "Rents and Royalties on the Outer Continental Shelf Lands" previously shown under proprietary receipts for the Interior Department are now being shown as undistributed offsetting receipts to conform with the 1976 Budget presentation.

[9]Pursuant to Treasury Department Order No. 229-1, as of March 17, 1974, all remaining current activity for the Office of the Treasurer was transferred to the Bureau of Government Financial Operations.

[10]Represents $50 special payments made pursuant to Public Law 94-12.

[11]Pursuant to Public Law 93-438, the activity for the Atomic Energy Commission other than nuclear regulatory and reactor safety research was transferred to the Energy Research and Development Administration.

[12]Excludes $825 million of notes issued to the International Monetary Fund to conform with the Budget presentation.

[13]The June 30, 1974, balance shown under the former General Account of the U.S. Treasury is now presented in the following lines:

U.S. Treasury Operating Cash....................	$9,159,226
Other cash monetary assets	1,034,230
Miscellaneous asset accounts	158,534

As of December 9, 1974, gold certificates have been issued to the Federal Reserve against all of the gold owned by the United States, and any disposition of gold hereafter will be the result of announced sales. The information will be published monthly in the Treasury Bulletin. Gold holdings, gold certificates and other liabilities, and gold balance are included in miscellaneous asset accounts.

[14]Non-interest bearing notes held by the IMF were redeemed and demand liabilities to the Fund were increased by issuance of a letter of credit in a like amount.

*Less than $500.00

**Less than $500,000.00

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
egislative Branch:									
Senate	$8,934	...	$8,934	$102,237	...	$102,237	$93,066	...	$93,066
House of Representatives	30,552	$9	30,543	179,033	$45	178,988	158,093	...	158,093
Joint items	1,141	...	1,141	44,989	...	44,989	37,178	...	37,178
Architect of the Capitol	4,217	...	4,217	50,893	...	50,893	48,139	...	48,139
Library of Congress	9,797	...	9,797	100,795	...	100,795	86,121	...	86,121
Government Printing Office:									
General fund appropriations	13,977	...	13,977	106,735	...	106,735	102,015	...	102,015
Revolving fund (net)	3,981	...	3,981	14,701	...	14,701	-6,396	...	-6,396
General Accounting Office	13,593	...	13,593	125,941	...	125,941	106,920	...	106,920
United States Tax Court	828	...	828	11,028	...	11,028	13,479	...	13,479
Other	489	...	489	5,114	...	5,114	2,507	...	2,507
Proprietary receipts from the public	...	3,201	-3,201	...	15,059	-15,059	...	$15,190	-15,190
Intrabudgetary transactions	-4	...	-4	-311	...	-311	-592	...	-592
Total--Legislative Branch	87,505	3,210	84,294	741,153	15,103	726,049	640,530	15,190	625,341
ie Judiciary:									
Supreme Court of the United States	504	...	504	6,875	...	6,875	5,793	...	5,793
Courts of Appeals, District Courts, and other judicial services	19,403	...	19,403	268,038	...	268,038	192,898	...	192,898
Federal Judicial Center	206	...	206	2,374	...	2,374	1,863	...	1,863
Other	963	...	963	8,547	...	8,547	8,475	...	8,475
Proprietary receipts from the public	...	25	-25	...	2,079	-2,079	...	3,841	-3,841
Total--The Judiciary	21,075	25	21,050	285,833	2,079	283,754	209,029	3,841	205,188
xecutive Office of the President:									
Compensation of the President	21	...	21	250	...	250	250	...	250
The White House Office	1,602	...	1,602	15,294	...	15,294	10,384	...	10,384
Office of Management and Budget	2,075	...	2,075	21,736	...	21,736	18,271	...	18,271
Office of Telecommunications Policy	305	...	305	7,754	...	7,754	2,385	...	2,385
Special Action Office for Drug Abuse Prevention	5,795	...	5,795	33,794	...	33,794	21,463	...	21,463
Other	1,868	...	1,868	13,999	...	13,999	13,312	...	13,312
Total--Executive Office of the President	11,665	...	11,665	92,826	...	92,826	66,065	...	66,065
nds Appropriated to the President:[6]									
Appalachian regional development programs	23,108	5	23,103	311,746	372	311,374	289,690	238	289,452
Disaster relief	14,009	...	14,009	205,858	...	205,858	250,085	...	250,085
Expansion of defense production	94,948	-18	94,966	95,337	94,505	831	3,364	159,254	-155,890
Foreign assistance:									
International security assistance:									
Liquidation of foreign military sales fund	3,722	22,743	-19,021	-61,543	22,743	-84,285	-64,085	25,842	-89,927
Military assistance	52,874	...	52,874	555,663	...	555,663	459,963	...	459,963
Foreign military credit sales	27,593	...	27,593	246,586	...	246,586	406,008	...	406,008
Security supporting assistance	101,770	...	101,770	395,769	...	395,769	381,862	...	381,862
Emergency security assistance for Israel	182,515	...	182,515	930,239	...	930,239	640,278	...	640,278
Military credit sales to Israel	-1,901	...	-1,901	-1,901	...	-1,901	4,435	...	4,435
Advances, foreign military sales	554,607	...	554,607	3,536,939	...	3,536,939	2,675,051	...	2,675,051
Proprietary receipts from the public:									
Advances, foreign military sales	...	531,665	-531,665	...	4,415,270	-4,415,270	...	3,167,364	-3,167,364
Other	...	4,854	-4,854	...	169,477	-169,477	...	109,095	-109,095
Total--International security assistance	921,179	559,262	361,917	5,601,752	4,607,490	994,262	4,503,511	3,302,301	1,201,211

e footnotes on page 3.

Classification of OUTLAYS--Continued	This Month: Outlays	This Month: Applicable Receipts	This Month: Net Outlays	Current Fiscal Year to Date: Outlays	Current Fiscal Year to Date: Applicable Receipts	Current Fiscal Year to Date: Net Outlays	Comparable Period Prior Fiscal Year: Outlays	Comparable Period Prior Fiscal Year: Applicable Receipts	Comparable Period Prior Fiscal Year: Net Outlays
Funds Appropriated to the President--Continued									
Foreign assistance--Continued									
Indochina postwar reconstruction assistance	$91,213	....	$91,213	$496,437	....	$496,437	$246,316	....	$246,316
International development assistance:									
Multilateral assistance:									
International financial institutions	49,306	....	49,306	569,239	....	569,239	446,312	....	446,312
International organizations and programs	3,382	....	3,382	115,460	....	115,460	168,357	....	168,357
Bilateral assistance:									
Public enterprise funds:									
Development loans revolving fund	122,346	$52,679	69,667	564,850	$306,093	258,757	568,428	$220,060	348,368
Overseas Private Investment Corporation	1,327	7,835	-6,508	63,964	51,657	12,307	19,362	39,962	-20,600
Inter-American Foundation	482	....	482	7,744	12	7,732	6,294	10	6,283
Other	639	145	495	4,367	3,164	1,204	3,580	3,073	507
Functional development assistance program	48,586	....	48,586	401,201	....	401,201	161,503	....	161,503
Payment to foreign service retirement and disability fund	16,090	....	16,090	16,090	....	16,090	....	....	....
American schools and hospitals abroad	5,168	....	5,168	20,547	....	20,547	22,039	....	22,039
Other assistance programs	30,798	....	30,798	261,140	....	261,140	331,391	....	331,391
Intragovernmental funds	1,092	....	1,092	5,710	....	5,710	-1,258	....	-1,258
Proprietary receipts from the public	....	98,325	-98,325	....	112,761	-112,761	....	62,888	-62,888
Total--Bilateral assistance	226,528	158,983	67,545	1,345,614	473,688	871,926	1,111,339	325,993	785,347
Total--International development assistance	279,216	158,983	120,233	2,030,312	473,688	1,556,625	1,726,007	325,993	1,400,015
President's foreign assistance contingency fund	-2,140	....	-2,140	4,316	....	4,316	25,224	....	25,224
Total--Foreign assistance	1,289,469	718,245	571,223	8,132,818	5,081,177	3,051,641	6,501,059	3,628,293	2,872,766
Other	-1,081	....	-1,081	2,180	....	2,180	72,766	....	72,766
Total--Funds Appropriated to the President	1,420,452	718,232	702,220	8,747,938	5,176,055	3,571,883	7,116,964	3,787,785	3,329,180
Department of Agriculture:									
Departmental management	1,327	....	1,327	45,525	....	45,525	43,887	....	43,887
Science and education programs:									
Agricultural Research Service	21,350	....	21,350	232,841	....	232,841	210,866	....	210,866
Animal and Plant Health Inspection Service	27,478	....	27,478	345,276	....	345,276	315,644	....	315,644
Cooperative State Research Service	11,221	....	11,221	95,833	....	95,833	85,374	....	85,374
Extension Service	31,487	....	31,487	219,202	....	219,202	193,339	....	193,339
National Agricultural Library	616	....	616	4,872	....	4,872	4,527	....	4,527
Total--Science and education programs	92,153	....	92,153	898,023	....	898,023	809,750	....	809,750
Agricultural economics:									
Statistical Reporting Service	2,443	....	2,443	27,947	....	27,947	23,800	....	23,800
Economic Research Service	3,382	....	3,382	25,701	....	25,701	18,840	....	18,840
Marketing services	626	....	626	10,037	....	10,037	8,947	....	8,947
International programs:									
Foreign Agricultural Service	3,890	....	3,890	32,933	....	32,933	28,157	....	28,157
Foreign assistance and special export programs	166,053	....	166,053	778,473	....	778,473	553,638	....	553,638
Agricultural Stabilization and Conservation Service:									
Salaries and expenses	28,237	....	28,237	158,069	....	158,069	150,622	....	150,622
Sugar act program	2,193	....	2,193	77,084	....	77,084	82,744	....	82,744
Agriculture conservation program (REAP)	27,242	....	27,242	244,786	....	244,786	1,551	....	1,551
Cropland adjustment program	-37	....	-37	41,223	....	41,223	47,143	....	47,143
Emergency conservation measures	532	....	532	8,153	....	8,153	18,195	....	18,195
Forestry incentives programs	244	....	244	244	....	244	....	....	....
Other	39	....	39	4,460	....	4,460	5,178	....	5,178
Total--Agricultural Stabilization and Conservation Service	58,450	....	58,450	534,019	....	534,019	305,433	....	305,433

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Current Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Agriculture--Continued									
Corporations:									
Federal Crop Insurance Corporation:									
Federal Crop Insurance Corporation fund	$3,766	$736	$3,030	$64,011	$45,680	$18,331	$30,511	$44,045	-$13,533
Administrative and operating expenses	-1,176	....	-1,176	11,939	....	11,939	11,456	....	11,456
Commodity Credit Corporation:									
Price Support and related programs	339,741	424,952	-85,211	3,211,577	2,487,189	724,388	5,378,355	4,374,288	1,004,067
Special activities:									
Intragovernmental funds	8,381	16,974	-8,593	39,488	42,009	-2,521	179,442	29	179,413
National Wool Act program	2,385	....	2,385	18,887	....	18,887	7,735	....	7,735
Total--Commodity Credit Corporation	350,507	441,926	-91,419	3,269,952	2,529,198	740,754	5,565,532	4,374,316	1,191,216
Total--Corporations	353,097	442,663	-89,566	3,345,903	2,574,878	771,024	5,607,500	4,418,361	1,189,138
Rural development:									
Rural Development Service	78	....	78	825	....	825	1,905	....	1,905
Rural Electrification Administration	2,199	....	2,199	18,891	....	18,891	17,388	....	17,388
Farmers Home Administration:									
Public enterprise funds:									
Rural housing insurance fund	222,310	116,933	105,377	3,856,371	4,754,750	-898,378	2,945,940	1,655,906	1,290,034
Agricultural credit insurance fund	192,470	62,559	129,911	2,517,933	2,650,701	-132,768	1,716,770	1,623,198	93,572
Rural development insurance fund	38,104	9,325	28,779	598,025	766,468	-168,443	458,308	309,661	148,647
Other	....	16	-16	365	64	301	2,859	7,547	-4,688
Rural water and waste disposal grants	4,477	....	4,477	35,118	....	35,118	33,990	....	33,990
Salaries and expenses	7,386	....	7,386	134,298	....	134,298	117,246	....	117,246
Other	1,023	....	1,023	10,400	....	10,400	6,185	....	6,185
Total--Farmers Home Administration	465,771	188,833	276,938	7,152,511	8,171,983	-1,019,472	5,281,296	3,596,311	1,684,985
Total--Rural development	468,047	188,833	279,214	7,172,227	8,171,983	-999,756	5,300,589	3,596,311	1,704,277
Soil Conservation Service:									
Conservation operations	12,481	....	12,481	187,197	....	187,197	165,135	....	165,135
Watershed and flood prevention operations	10,211	....	10,211	144,142	....	144,142	131,576	....	131,576
Other	6,990	....	6,990	63,410	....	63,410	56,553	....	56,553
Consumer programs:									
Agricultural Marketing Service:									
Marketing Services	3,519	....	3,519	40,171	....	40,171	33,318	....	33,318
Funds for strengthening markets, income and supply	27,734	....	27,734	469,014	....	469,014	786,846	....	786,846
Milk market orders assessment fund	3,676	1,833	1,843	22,309	24,008	-1,699	19,885	18,758	1,128
Other	3,605	....	3,605	43,644	....	43,644	49,327	....	49,327
Total--Agricultural Marketing Service	38,533	1,833	36,700	575,138	24,008	551,130	889,377	18,758	870,619
Food and Nutrition Service:									
Child nutrition programs	199,615	....	199,615	1,452,267	....	1,452,267	751,325	....	751,325
Special milk program	20,150	....	20,150	122,858	....	122,858	50,236	....	50,236
Food stamp program	424,178	....	424,178	4,598,956	....	4,598,956	2,844,815	....	2,844,815
Total--Food and Nutrition Service	643,943	....	643,943	6,174,080	....	6,174,080	3,646,377	....	3,646,377
Total--Consumer Programs	682,476	1,833	680,643	6,749,219	24,008	6,725,210	4,535,753	18,758	4,516,996

See footnotes on page 3.

Classification of OUTLAYS--Continued	[illegible]			Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Agriculture--Continued									
Forest Service:									
Intragovernmental funds	-$16,655	....	-$16,655	-$5,492	....	-$5,492	-$2,667	....	-$2,667
Forest protection and utilization	76,106	....	76,106	526,832	....	526,832	440,866	....	440,866
Construction and land acquisition	2,655	....	2,655	87,515	....	87,515	33,825	....	33,825
Forest roads and trails	16,161	....	16,161	114,545	....	114,545	110,570	....	110,570
Forest Service permanent appropriations	1,742	....	1,742	194,659	....	194,659	181,628	....	181,628
Cooperative work	-42,733	....	-42,733	60,234	....	60,234	59,573	....	59,573
Other	3,008	....	3,008	15,441	....	15,441	9,400	....	9,400
Total--Forest Service	40,285	....	40,285	993,733	....	993,733	833,194	....	833,194
Proprietary receipts from the public	....	$107,113	-107,113	....	$512,744	-512,744	....	$622,430	-622,430
Total--Department of Agriculture	1,901,912	740,442	1,161,470	21,008,488	11,283,613	9,724,876	18,422,752	8,655,861	9,766,891
Department of Commerce:									
General Administration	-425	....	-425	13,738	....	13,738	21,666	....	21,666
Social and Economic Statistics Administration	-957	....	-957	76,819	....	76,819	59,468	....	59,468
Economic Development Assistance:									
Economic Development Administration:									
Economic development revolving fund	8	2,910	-2,902	20,413	40,893	-20,480	19,579	40,605	-21,027
Economic development assistance programs	27,105	....	27,105	235,133	....	235,133	236,633	....	236,633
Other	24,073	....	24,073	44,005	....	44,005	20,151	....	20,151
Regional Action Planning Commissions	6,413	....	6,413	64,236	....	64,236	57,972	....	57,972
Total--Economic Development Assistance	57,599	2,910	54,689	363,787	40,893	322,894	334,335	40,605	293,730
Promotion of Industry and Commerce:									
Domestic and International Business Administration	5,227	....	5,227	66,180	....	66,180	58,308	....	58,308
Minority Business Enterprise	4,151	....	4,151	50,305	....	50,305	46,637	....	46,637
United States Travel Service	1,315	....	1,315	11,667	....	11,667	10,906	....	10,906
Total--Promotion of Industry and Commerce	10,693	....	10,693	128,151	....	128,151	115,852	....	115,852
Science and Technology:									
National Oceanic and Atmospheric Administration	39,162	102	39,059	445,447	2,132	443,316	411,075	4,545	406,529
National Fire Prevention and Control Administration	1,246	....	1,246	3,234	....	3,234	....	....	....
Patent and Trademark Office	7,013	....	7,013	71,119	....	71,119	8,712	....	8,712
Science and Technical Research	5,612	....	5,612	74,125	....	74,125	131,306	....	131,306
Total--Science and Technology	53,033	102	52,930	593,925	2,132	591,794	551,093	4,545	546,548
Maritime Administration:									
Public enterprise funds	1,384	1,526	-142	6,802	21,702	-14,900	3,341	18,117	-14,775
Ship construction	27,222	....	27,222	240,828	....	240,828	200,257	....	200,257
Operating-differential subsidies	19,089	....	19,089	243,152	....	243,152	257,919	....	257,919
Other	3,611	....	3,611	65,663	....	65,663	59,435	....	59,435
Total--Maritime Administration	51,305	1,526	49,779	556,445	21,702	534,743	520,953	18,117	502,836
Proprietary receipts from the public	....	5,933	-5,933	....	56,264	-56,264	....	62,361	-62,361
Intrabudgetary transactions	-10,159	....	-10,159	-28,951	....	-28,951	-22,468	....	-22,468
Total--Department of Commerce	161,090	10,472	150,618	1,703,916	120,990	1,582,926	1,580,899	125,629	1,455,271

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	Current Fiscal Year to Date			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Defense--Military:									
Military personnel:									
Department of the Army	$822,003	....	$822,003	$9,271,331	....	$9,271,331	$8,732,551	....	$8,732,551
Department of the Navy	692,142	....	692,142	7,882,597	....	7,882,597	7,336,978	....	7,336,978
Department of the Air Force	640,937	....	640,937	7,813,683	....	7,813,683	7,658,659	....	7,658,659
Total--Military personnel	2,155,082	....	2,155,082	24,967,611	....	24,967,611	23,728,188	....	23,728,188
Retired Military personnel	549,809	....	549,809	6,241,772	....	6,241,772	5,127,554	....	5,127,554
Operation and maintenance:									
Department of the Army	545,884	....	545,884	7,544,610	....	7,544,610	7,039,395	....	7,039,395
Department of the Navy	782,655	....	782,655	8,043,606	....	8,043,606	6,511,116	....	6,511,116
Department of the Air Force	718,113	....	718,113	8,380,381	....	8,380,381	7,336,135	....	7,336,135
Defense agencies	196,348	....	196,348	2,327,939	....	2,327,939	1,591,434	....	1,591,434
Total--Operation and maintenance	2,243,000	....	2,243,000	26,296,536	....	26,296,536	22,478,080	....	22,478,080
Procurement:									
Department of the Army	192,525	....	192,525	2,514,507	....	2,514,507	2,784,016	....	2,784,016
Department of the Navy	745,899	....	745,899	8,056,830	....	8,056,830	7,026,616	....	7,026,616
Department of the Air Force	460,811	....	460,811	5,389,674	....	5,389,674	5,366,504	....	5,366,504
Defense agencies	10,155	....	10,155	80,830	....	80,830	64,112	....	64,112
Total--Procurement	1,409,390	....	1,409,390	16,041,841	....	16,041,841	15,241,248	....	15,241,248
Research, development, test and evaluation:									
Department of the Army	176,045	....	176,045	1,964,406	....	1,964,406	2,189,724	....	2,189,724
Department of the Navy	274,351	....	274,351	3,020,979	....	3,020,979	2,623,433	....	2,623,433
Department of the Air Force	231,838	....	231,838	3,307,947	....	3,307,947	3,239,566	....	3,239,566
Defense agencies	52,570	....	52,570	573,167	....	573,167	529,563	....	529,563
Total--Research, development, test and evaluation	734,805	....	734,805	8,866,499	....	8,866,499	8,582,286	....	8,582,286
Military construction:									
Department of the Army	39,016	....	39,016	624,246	....	624,246	693,362	....	693,362
Department of the Navy	54,445	....	54,445	516,518	....	516,518	413,746	....	413,746
Department of the Air Force	30,839	....	30,839	303,380	....	303,380	286,042	....	286,042
Defense agencies	1,739	....	1,739	17,623	....	17,623	13,390	....	13,390
Total--Military construction	126,038	....	126,038	1,461,767	....	1,461,767	1,406,540	....	1,406,540
Family housing:									
Homeowners assistance fund	958	$1,746	-789	5,683	$3,123	2,559	7,825	$2,417	5,408
Other	108,064	....	108,064	1,121,738	....	1,121,738	878,914	....	878,914
Total--Family housing	109,022	1,746	107,275	1,127,421	3,123	1,124,297	886,739	2,417	884,322
Civil Defense	8,280	....	8,280	86,404	....	86,404	75,333	....	75,333
Special foreign currency program	649	....	649	4,382	....	4,382	3,895	....	3,895
Military assistance for South Vietnamese Forces	44,474	....	44,474	402,411	....	402,411	....	....	....
Naval Petroleum Reserve	5,519	....	5,519	33,097	....	33,097	....	....	....

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Defense--Military--Continued									
Revolving and management funds:									
Public enterprise funds:									
Department of the Army	(*)	....	(*)	$1	....	$1	$1	$19	-$18
Department of the Navy	$164	-$988	$1,152	3,065	-$33,639	36,704	38,000	62,402	-24,402
Department of the Air Force	2	....	2	2	....	2	....	15	-15
Intragovernmental funds:									
Department of the Army	-3,500	....	-3,500	38,581	....	38,581	12,645	....	12,645
Department of the Navy	-75,904	....	-75,904	-123,393	....	-123,393	134,322	....	134,322
Department of the Air Force	-60,868	....	-60,868	-74,669	....	-74,669	74,292	....	74,292
Defense agencies	-34,541	....	-34,541	188,445	....	188,445	71,246	....	71,246
Total--Revolving and management funds	-174,647	-988	-173,659	32,032	-33,639	65,671	330,505	62,436	268,069
Miscellaneous trust revolving funds	9,812	7,355	2,456	95,107	91,231	3,876	64,965	82,643	-17,678
Miscellaneous trust funds	1,418	....	1,418	7,634	....	7,634	6,797	....	6,797
Proprietary receipts from the public	....	-7,087	7,087	....	177,152	-177,152	....	152,638	-152,638
Intrabudgetary transactions	-5,574	....	-5,574	-6,523	....	-6,523	-6,552	....	-6,552
Total--Department of Defense--Military	7,217,077	1,027	7,216,049	85,657,991	237,867	85,420,124	77,925,579	300,135	77,625,444
Department of Defense--Civil:									
Cemeterial expenses, Army	523	....	523	7,751	....	7,751	11,104	....	11,104
Corps of Engineers:									
Intragovernmental funds	-45,593	....	-45,593	-14,691	....	-14,691	-641	....	-641
Other	262,869	....	262,869	2,089,095	....	2,089,095	1,690,819	....	1,690,819
Proprietary receipts from the public	....	1,509	-1,509	....	49,671	-49,671	....	35,539	-35,539
Ryukyu Islands, Army	....	70	-70	2	410	-408	-84	381	-464
Wildlife conservation, etc., military reservations	101	....	101	868	....	868	595	....	595
Soldiers' and Airmen's Home:									
Soldiers' and Airmen's Home revolving fund	27	25	2	286	274	12	239	254	-15
Other	1,113	....	1,113	15,744	....	15,744	14,257	....	14,257
The Panama Canal:									
Panama Canal Company	13,359	11,073	2,286	251,704	254,728	-3,023	213,031	213,044	-14
Other	10,404	....	10,404	67,928	....	67,928	62,300	....	62,300
Proprietary receipts from the public	....	1,130	-1,130	....	41,494	-41,494	....	37,097	-37,097
Intrabudgetary transactions	-4,895	....	-4,895	-20,945	....	-20,945	-23,625	....	-23,625
Total--Department of Defense--Civil	237,909	13,807	224,102	2,397,740	346,576	2,051,164	1,967,995	286,316	1,681,679
Department of Health, Education, and Welfare:									
Food and Drug Administration:									
Revolving fund for certification and other services	460	404	56	5,490	5,715	-226	5,208	5,411	-203
Other	14,877	....	14,877	200,924	....	200,924	165,084	....	165,084
Health Services Administration:									
Health maintenance organization loan and loan guarantee fund	....	....	....	-33,000	....	-33,000	....	....	....
Health services	50,511	....	50,511	785,037	....	785,037	680,431	....	680,431
Indian health	22,684	....	22,684	282,795	....	282,795	216,057	....	216,057
Other	2	....	2	519	....	519	9,664	....	9,664
Center for Disease Control	8,700	....	8,700	154,491	....	154,491	133,515	....	133,515

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
artment of Health, Education, and Welfare--Continued									
ational Institutes of Health:									
Intragovernmental funds	$109,420	....	$109,420	$1,329	....	$1,329	$19,594	....	$19,594
Cancer research	52,204	....	52,204	612,246	....	612,246	423,063	....	423,063
Heart and lung research	14,128	....	14,128	303,007	....	303,007	269,311	....	269,311
Arthritis, metabolism and digestive diseases	3,193	....	3,193	145,032	....	145,032	149,182	....	149,182
Neurological diseases and stroke	7,608	....	7,608	122,092	....	122,092	118,107	....	118,107
Allergy and infectious diseases	-226	....	-226	104,693	....	104,693	104,815	....	104,815
General medical science	6,185	....	6,185	147,301	....	147,301	161,037	....	161,037
Child health and human development	8,586	....	8,586	130,435	....	130,435	117,834	....	117,834
Other research institutes	13,612	....	13,612	264,063	....	264,063	193,951	....	193,951
Other	3,660	....	3,660	59,146	....	59,146	45,837	....	45,837
Total--National Institutes of Health	218,370	....	218,370	1,889,343	....	1,889,343	1,602,730	....	1,602,730
Alcohol, Drug Abuse, and Mental Health Administration:									
Alcohol, drug abuse, and mental health	41,004	....	41,004	905,100	....	905,100	591,211	....	591,211
Saint Elizabeths Hospital	3,554	....	3,554	45,163	....	45,163	40,388	....	40,388
Other	34	....	34	10	....	10	10	$33	-24
Health Resources Administration:									
Public enterprise funds	13,155	$10,061	3,093	74,330	$63,212	11,117	32,427	5,985	26,442
Health resources	58,087	....	58,087	1,099,257	....	1,099,257	929,013	....	929,013
Office of Assistant Secretary for Health	27,119	....	27,119	65,505	....	65,505	55,410	....	55,410
Education Division:									
Office of Education:									
Student loan insurance fund	10,995	1,970	9,024	124,882	13,795	111,087	94,230	10,406	83,823
Higher education facilities loan and insurance fund	27,215	989	26,226	41,752	25,459	16,293	39,816	27,735	12,081
Elementary and secondary education	137,536	....	137,536	2,277,069	....	2,277,069	1,666,900	....	1,666,900
Indian education	492	....	492	40,035	....	40,035	15,694	....	15,694
School assistance in federally affected areas	28,733	....	28,733	618,711	....	618,711	558,527	....	558,527
Emergency school aid	8,447	....	8,447	215,943	....	215,943	204,575	....	204,575
Education for the handicapped	17,054	....	17,054	151,244	....	151,244	122,744	....	122,744
Occupational, vocational, and adult education	70,879	....	70,879	652,751	....	652,751	569,638	....	569,638
Higher education	13,003	....	13,003	1,838,066	....	1,838,066	1,176,308	....	1,176,308
Library resources	45,745	....	45,745	225,810	....	225,810	149,896	....	149,896
Educational development	8,882	....	8,882	174,505	....	174,505	246,112	....	246,112
Other	13,864	....	13,864	97,906	....	97,906	78,617	....	78,617
Total--Office of Education	382,843	2,959	379,884	6,458,674	39,254	6,419,420	4,923,058	38,142	4,884,916
National Institute of Education	25,382	....	25,382	82,771	....	82,771	96,635	....	96,635
Office of the Assistant Secretary for Education	1,096	....	1,096	12,557	....	12,557	1,488	....	1,488
Total--Education Division	409,321	2,959	406,362	6,554,002	39,254	6,514,748	5,021,180	38,142	4,983,039
Social and Rehabilitation Service:									
Public assistance:									
Health care services	809,227	....	809,227	6,840,366	....	6,840,366	5,818,391	....	5,818,391
Public assistance and other income supplements	628,933	....	628,933	5,120,577	....	5,120,577	5,423,353	....	5,423,353
Social services	205,079	....	205,079	2,048,758	....	2,048,758	1,472,201	....	1,472,201
Work incentives	32,017	....	32,017	313,837	....	313,837	339,862	....	339,862
Assistance to refugees in the United States	19,399	....	19,399	88,136	....	88,136	107,770	....	107,770
Other	3,553	....	3,553	67,783	....	67,783	63,786	....	63,786
Total--Social and Rehabilitation Services	1,698,208	....	1,698,208	14,479,457	....	14,479,457	13,225,363	....	13,225,363

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Health, Education, and Welfare--Continued									
Social Security Administration:									
Intragovernmental funds	$503	....	$503	$757	....	$757	-$933	....	-$933
Payments to social security trust funds:									
Health care services	129,299	....	129,299	2,859,995	....	2,859,995	2,527,706	....	2,527,706
General retirement and disability insurance	....	....	....	499,323	....	499,323	493,788	....	493,788
Special benefits for disabled coal miners	83,696	....	83,696	967,782	....	967,782	1,000,055	....	1,000,055
Supplemental security income program	382,745	....	382,745	4,779,258	....	4,779,258	2,256,654	....	2,256,654
Federal old-age and survivors insurance trust fund:									
Administrative expenses and construction	73,213	....	73,213	847,837	....	847,837	723,362	....	723,362
Benefit payments	4,655,156	....	4,655,156	54,838,818	....	54,838,818	47,847,417	....	47,847,417
Vocational rehabilitation services	2,356	....	2,356	7,731	....	7,731	3,873	....	3,873
Payment to railroad retirement account	981,785	....	981,785	981,785	....	981,785	908,585	....	908,585
Total--FOASI trust fund	5,712,510	....	5,712,510	56,676,171	....	56,676,171	49,483,237	....	49,483,237
Federal disability insurance trust fund:									
Administrative expenses and construction	22,665	....	22,665	252,148	....	252,148	154,281	....	154,281
Benefit payments	663,851	....	663,851	7,630,633	....	7,630,633	6,157,797	....	6,157,797
Vocational rehabilitation services	9,217	....	9,217	70,936	....	70,936	49,670	....	49,670
Payment to railroad retirement account	28,514	....	28,514	28,514	....	28,514	22,327	....	22,327
Total--FDI trust fund	724,247	....	724,247	7,982,231	....	7,982,231	6,384,075	....	6,384,075
Federal hospital insurance trust fund:									
Administrative expenses and construction	12,952	....	12,952	256,142	....	256,142	258,066	....	258,066
Benefit payments	910,765	....	910,765	10,355,390	....	10,355,390	7,806,687	....	7,806,687
Total--FHI trust fund	923,717	....	923,717	10,611,532	....	10,611,532	8,064,753	....	8,064,753
Federal supplementary medical ins. trust fund:									
Administrative expenses and construction	47,638	....	47,638	404,458	....	404,458	409,150	....	409,150
Benefit payments	339,204	....	339,204	3,765,397	....	3,765,397	2,873,649	....	2,873,649
Total--FSMI trust fund	386,842	....	386,842	4,169,855	....	4,169,855	3,282,799	....	3,282,799
Total--Social Security Administration	8,343,559	....	8,343,559	88,546,903	....	88,546,903	73,492,135	....	73,492,135
Special institutions:									
American Printing House for the Blind	131	....	131	1,994	....	1,994	1,817	....	1,817
National Technical Institute for the Deaf	-108	....	-108	9,887	....	9,887	12,168	....	12,168
Gallaudet College	2,558	....	2,558	27,397	....	27,397	19,286	....	19,286
Howard University	7,576	....	7,576	84,574	....	84,574	79,228	....	79,228
Total--Special institutions	10,157	....	10,157	123,852	....	123,852	112,499	....	112,499
Assistant Secretary for Human Development:									
Elementary Secondary and vocational education	97,478	....	97,478	1,109,310	....	1,109,310	958,465	....	958,465
Social services	75,315	....	75,315	511,922	....	511,922	420,929	....	420,929
Research and training activities overseas	121	....	121	2,499	....	2,499	2,777	....	2,777
Departmental management:									
Intragovernmental funds	-6,779	....	-6,779	-232	....	-232	-5,090	....	-5,090
Office for Civil Rights	1,685	....	1,685	19,616	....	19,616	13,754	....	13,754
General departmental management	8,104	....	8,104	105,234	....	105,234	72,821	....	72,821
Other	106	....	106	1,573	....	1,573	1,048	....	1,048
Proprietary receipts from the public	....	$2,199	-2,199	....	$14,170	-14,170	....	$15,578	-15,578

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TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
ment of Health, Education, and Welfare--Continued									
budgetary transactions:									
Payments for health insurance for the aged:									
Federal hospital insurance trust fund	....	....	....	-$481,353	....	-$481,353	-$450,780	....	-$450,780
Federal supplementary medical insurance trust fund	-$129,299	....	-$129,299	-2,329,590	....	-2,329,590	-2,028,926	....	-2,028,926
Payments for military service credits and special benefits for the aged:									
Federal old-age and survivors insurance trust fund	....	....	....	-447,323	....	-447,323	-441,788	....	-441,788
Federal disability insurance trust fund	....	....	....	-52,000	....	-52,000	-52,000	....	-52,000
Federal hospital insurance trust fund	....	....	....	-48,000	....	-48,000	-48,000	....	-48,000
Receipts transferred to railroad retirement account	-1,010,299	....	-1,010,299	-1,010,299	....	-1,010,299	-930,912	....	-930,912
Interest on reimbursement of administrative and vocational rehabilitation expenses:									
Federal old-age and survivors insurance trust fund	....	....	....	1,886	....	1,886	1,074	....	1,074
Federal disability insurance trust fund	....	....	....	304	....	304	-2,661	....	-2,661
Federal hospital insurance trust fund	....	....	....	-1,054	....	-1,054	269	....	269
Federal supplementary medical insurance trust fund	....	....	....	-1,136	....	-1,136	1,318	....	1,318
Other	-24,519	....	-24,519	-27,427	....	-27,427	-21,113	....	-21,113
Total--Department of Health, Education, and Welfare	9,931,712	$15,623	9,916,089	112,533,108	$122,352	112,410,756	93,803,511	$65,149	93,738,362
partment of Housing and Urban Development:									
ousing production and mortgage credit:									
Federal Housing Administration:									
Public enterprise funds:									
College housing loans and other expenses	1,544	6,706	-5,162	113,436	168,854	-55,418	136,227	172,256	-36,028
Federal Housing Administration Fund	325,277	139,278	185,999	2,487,629	1,399,180	1,088,449	2,146,618	1,283,851	862,767
Other	2,330	44,591	-42,261	667,156	723,111	-55,955	658,912	660,655	-1,743
Other	440	....	440	13,673	....	13,673	5,246	....	5,246
Total--Federal Housing Administration	329,592	190,575	139,016	3,281,894	2,291,145	990,749	2,947,003	2,116,761	830,242
Government National Mortgage Association:									
Public enterprise funds:									
Special assistance functions	260,248	347,472	-87,224	4,044,129	1,863,861	2,180,268	1,895,200	1,853,427	41,772
Management and liquidating functions	3,349	25,573	-22,224	61,913	123,561	-61,648	69,453	135,693	-66,241
Guarantees of mortgage-backed securities	485	1,284	-798	6,443	16,165	-9,723	3,051	10,946	-7,895
Participation sales fund	7,365	....	7,365	-4,676	....	-4,676	32,901	2,500	30,401
Total--Government National Mortgage Association	271,448	374,329	-102,881	4,107,809	2,003,587	2,104,222	2,000,604	2,002,567	-1,963
Total--Housing production and mortgage credit	601,039	564,904	36,135	7,389,703	4,294,731	3,094,971	4,947,607	4,119,328	828,279
ousing management:									
Public enterprise funds:									
Rental housing assistance fund	1,075	2,380	-1,306	-64	15,138	-15,202	-558	10,573	-11,131
Other	24,186	3,183	21,002	69,980	12,652	57,328	731	6,847	-6,115
Intragovermental funds	-1,523	....	-1,523	-37,554	....	-37,554	-3,482	....	-3,482
Housing payments:									
College housing grants	854	....	854	14,799	....	14,799	12,147	....	12,147
Low-rent public housing	100,422	....	100,422	1,311,617	....	1,311,617	1,115,656	....	1,115,656
Home ownership assistance	16,855	....	16,855	193,996	....	193,996	249,473	....	249,473
Rental housing assistance	34,623	....	34,623	391,949	....	391,949	273,666	....	273,666
[illegible] supplement	17,073	....	17,073	174,746	....	174,746	137,383	....	137,383
ther	697	....	697	24,430	....	24,430	26,040	....	26,040
Total--Housing management	194,261	5,564	188,697	2,143,898	27,791	2,116,107	1,811,057	17,419	1,793,638

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Housing and Urban Development--Continued									
Community planning and development:									
Public enterprise funds:									
Urban renewal fund	$165,863	$34,055	$131,808	$1,949,100	$601,668	$1,347,432	$2,056,324	$930,304	$1,126,021
Rehabilitation loan fund	3,902	1,651	2,251	47,779	18,339	29,440	22,785	17,940	4,845
Public facility loans	....	....	....	45,656	22,270	23,386	45,538	27,254	18,284
Comprehensive planning grants	6,119	....	6,119	96,883	....	96,883	101,302	....	101,302
Salaries, expenses and other	14,828	....	14,828	80,175	....	80,175	36,298	....	36,298
Model cities programs	26,597	....	26,597	344,588	....	344,588	468,475	....	468,475
Open space land programs	....	....	....	51,123	....	51,123	79,928	....	79,928
Grants for neighborhood facilities	....	....	....	32,646	....	32,646	40,465	....	40,465
Grants for basic water and sewer facilities	....	....	....	105,774	....	105,774	136,055	....	136,055
Total--Community planning and development	217,310	35,706	181,603	2,753,724	642,277	2,111,447	2,987,169	975,497	2,011,672
Federal Insurance Administration	6,782	712	6,069	53,941	12,084	41,858	61,884	14,690	47,194
Policy development and research	4,780	....	4,780	58,652	....	58,652	58,382	....	58,382
Fair Housing and equal opportunity	344	....	344	11,887	....	11,887	9,777	....	9,777
Departmental management:									
Intragovernmental funds	-8,248	....	-8,248	-20,248	....	-20,248	-2,396	....	-2,396
Other	1,441	....	1,441	64,699	....	64,699	47,796	....	47,796
Other	3,503	-18	3,521	14,932	3,629	11,303	2,388	3,946	-1,558
Proprietary receipts from the public	....	97	-97	....	2,468	-2,468	....	6,968	-6,968
Total--Department of Housing and Urban Development	1,021,211	606,965	414,247	12,471,188	4,982,981	7,488,207	9,923,664	5,137,849	4,785,815
Department of the Interior:[8]									
Land and Water Resources:									
Bureau of Land Management:									
Management of lands and resources	12,221	....	12,221	159,861	....	159,861	105,825	....	105,825
Payments to counties, Oregon and California grant lands	....	....	....	57,789	....	57,789	47,191	....	47,191
Payments to states from receipts under Mineral Leasing Act	....	....	....	117,151	....	117,151	56,748	....	56,748
Other	3,250	....	3,250	50,087	....	50,087	36,736	....	36,736
Bureau of Reclamation:									
Colorado River and Fort Peck projects	9,752	-5,042	14,794	105,820	54,161	51,659	125,918	50,577	75,341
Construction and rehabilitation	25,216	....	25,216	261,781	....	261,781	233,046	....	233,046
Operation and maintenance	11,184	....	11,184	101,178	....	101,178	86,342	....	86,342
Other	-41,379	....	-41,379	67,236	....	67,236	55,081	....	55,081
Office of Water Research and Technology	2,117	....	2,117	23,252	....	23,252	26,594	....	26,594
Total--Land and Water Resources	22,361	-5,042	27,403	944,155	54,161	889,993	773,479	50,577	722,901
Fish and Wildlife and Parks:									
Bureau of Outdoor Recreation	38,842	....	38,842	288,871	....	288,871	252,970	....	252,970
United States Fish and Wildlife Service:									
Resource management	7,299	....	7,299	99,211	....	99,211	83,307	....	83,307
Recreational resources	11,557	....	11,557	68,019	....	68,019	51,185	....	51,185
Other	194	....	194	27,812	....	27,812	27,013	....	27,013
National Park Service:									
Operation of the National Park System	19,608	....	19,608	224,209	....	224,209	170,890	....	170,890
Planning and construction	4,769	....	4,769	56,092	....	56,092	39,778	....	39,778
Other	7,354	....	7,354	61,497	....	61,497	39,815	....	39,815
Total--Fish and Wildlife and Parks	89,623	....	89,623	825,709	....	825,709	664,958	....	664,958

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TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of the Interior--Continued									
Energy and Minerals:									
Geological Survey	$19,422	....	$19,422	$224,910	....	$224,910	$178,363	....	$178,363
Mining Enforcement and Safety Administration and Bureau of Mines:									
Helium fund	587	$637	-50	6,901	$7,356	-455	6,437	$8,052	-1,616
Other	19,783	....	19,783	181,562	....	181,562	161,426	....	161,426
Bonneville Power Administration	15,770	-161,817	177,587	190,136	25,758	164,379	152,798	....	152,798
Other power administrations	610	....	610	6,423	....	6,423	6,202	....	6,202
Total--Energy and Minerals	56,172	-161,180	217,352	609,931	33,113	576,818	505,226	8,052	497,173
Bureau of Indian Affairs:									
Public enterprise funds	1,831	241	1,590	9,026	1,800	7,226	2,251	2,407	-156
Operation of Indian programs	42,623	....	42,623	469,155	....	469,155	401,386	....	401,386
Indian tribal funds	15,139	....	15,139	143,635	....	143,635	129,004	....	129,004
Other	7,599	....	7,599	219,368	....	219,368	316,259	....	316,259
Total--Bureau of Indian Affairs	67,192	241	66,951	841,184	1,800	839,384	848,899	2,407	846,492
Office of Territorial Affairs	8,449	....	8,449	107,025	....	107,025	101,776	....	101,776
Office of the Solicitor and Office of the Secretary	2,332	....	2,332	44,958	....	44,958	31,316	....	31,316
Proprietary receipts from the public	....	247,460	-247,460	....	1,074,821	-1,074,821	....	948,343	-948,343
Intrabudgetary transactions	-9,847	....	-9,847	-47,473	....	-47,473	-123,670	....	-123,670
Total--Department of the Interior	236,281	81,478	154,803	3,325,490	1,163,896	2,161,594	2,801,983	1,009,380	1,792,603
Department of Justice:									
General administration	2,062	....	2,062	21,015	....	21,015	17,319	....	17,319
Legal activities	17,422	....	17,422	226,391	....	226,391	183,031	....	183,031
Federal Bureau of Investigation	37,680	....	37,680	438,501	....	438,501	380,580	....	380,580
Immigration and Naturalization Service	12,307	....	12,307	178,765	....	178,765	148,847	....	148,847
Federal Prison System:									
Federal Prison Industries, Inc. (net)	-999	....	-999	1,039	....	1,039	-1,195	....	-1,195
Federal prisons commissary funds	634	650	-16	7,026	7,258	-233	6,642	6,928	-285
Other	20,127	....	20,127	225,607	....	225,607	203,311	....	203,311
Law Enforcement Assistance Administration	83,339	....	83,339	852,863	....	852,863	770,428	....	770,428
Drug Enforcement Administration	10,336	....	10,336	132,230	....	132,230	97,635	....	97,635
Proprietary receipts from the public	....	2,278	-2,278	....	9,271	-9,271	....	3,147	-3,147
Total--Department of Justice	182,908	2,928	179,980	2,083,436	16,530	2,066,906	1,806,598	10,074	1,796,523
Department of Labor:									
Manpower Administration:									
Comprehensive manpower assistance	592,696	....	592,696	2,803,020	....	2,803,020	1,453,589	....	1,453,589
Temporary and emergency employment assistance	139,127	....	139,127	372,646	....	372,646	604,978	....	604,978
Federal unemployment benefits and allowances	121,284	....	121,284	748,648	....	748,648	361,905	....	361,905
Grants to states for unemployment insurance and employment services	9,759	....	9,759	-18,666	....	-18,666	60,011	....	60,011
Advances to the unemployment trust fund and other funds	372,000	....	372,000	785,000	....	785,000	-8,524	....	-8,524
Program administration, and other	-4,217	....	-4,217	69,270	....	69,270	61,038	....	61,038

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Labor--Continued									
Unemployment trust fund:									
Unemployment insurance and employment services:									
Grants to States for unemployment insurance and employment services	$122,521	....	$122,521	$1,117,141	....	$1,117,141	$831,829	....	$831,829
Federal--State unemployment insurance:									
State unemployment benefits	1,475,206	....	1,475,206	11,958,177	....	11,958,177	5,138,719	....	5,138,719
Federal administrative expenses:									
Direct expenses, reimbursements and recoveries	2,926	....	2,926	61,144	....	61,144	69,956	....	69,956
Interest on refunds	116	....	116	660	....	660	625	....	625
Repayment of advances to the general fund	....	....	....	....	....	....	50,000	....	50,000
Railroad unemployment insurance:									
Railroad unemployment benefits	5,888	....	5,888	67,113	....	67,113	50,472	....	50,472
Administration expenses	41	....	41	6,888	....	6,888	6,885	....	6,885
Payments of interest on borrowings from railroad retirement account	....	....	....	....	....	....	80	....	80
Total--Unemployment trust fund	1,606,698	....	1,606,698	13,211,123	....	13,211,123	6,148,566	....	6,148,566
Total--Manpower Administration	2,837,346	....	2,837,346	17,971,039	....	17,971,039	8,681,563	....	8,681,563
Labor-Management Services Administration	1,885	....	1,885	27,388	....	27,388	23,550	....	23,550
Employment Standards Administration:									
Salaries and expenses	5,691	....	5,691	71,991	....	71,991	55,519	....	55,519
Special benefits	35,283	....	35,283	192,334	....	192,334	106,523	....	106,523
Other	160	....	160	2,723	....	2,723	2,516	....	2,516
Occupational Safety and Health Administration	9,257	....	9,257	90,115	....	90,115	69,313	....	69,313
Bureau of Labor Statistics	3,196	....	3,196	52,150	....	52,150	48,681	....	48,681
Departmental management	3,014	....	3,014	27,162	....	27,162	21,408	....	21,408
Proprietary receipts from the public	....	$68	-68	....	$1,187	-1,187	....	$1,968	-1,968
Intrabudgetary transactions	-372,147	....	-372,147	-785,147	....	-785,147	-40,976	....	-40,976
Total--Department of Labor	2,523,685	68	2,523,618	17,649,755	1,187	17,648,568	8,968,097	1,968	8,966,129
Department of State:									
Administration of foreign affairs:									
Intragovernmental funds	-783	....	-783	-468	....	-468	-2,242	....	-2,242
Salaries and expenses	5,131	....	5,131	378,865	....	378,865	328,848	....	328,848
Acquisition, operation and maintenance of buildings abroad	5,593	....	5,593	30,216	....	30,216	28,354	....	28,354
Payment to foreign service retirement and disability fund	24,120	....	24,120	29,055	....	29,055	36,935	....	36,935
Foreign service retirement and disability fund	5,100	....	5,100	55,322	....	55,322	39,358	....	39,358
Other	476	....	476	4,019	....	4,019	3,808	....	3,808
Total--Administration of foreign affairs	39,637	....	39,637	497,009	....	497,009	435,061	....	435,061
International organizations and conferences	1,079	....	1,079	222,733	....	222,733	223,398	....	223,398
International commissions	2,456	....	2,456	22,286	....	22,286	16,827	....	16,827
Educational exchange	6,180	....	6,180	58,331	....	58,331	54,496	....	54,496
Other	21,084	....	21,084	97,268	....	97,268	52,679	....	52,679
Proprietary receipts from the public	....	278	-278	....	7,249	-7,249	....	7,477	-7,477
Intrabudgetary transactions:									
Foreign service retirement and disability fund:									
Receipts transferred to civil service retirement and disability fund	....	....	....	-433	....	-433	-103	....	-103
General fund contributions	-40,200	....	-40,200	-45,135	....	-45,135	-36,935	....	-36,935
Other	-86	....	-86	-519	....	-519	-2,719	....	-2,719
Total--Department of State	30,150	278	29,872	851,541	7,249	844,292	742,704	7,477	735,227

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TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of Transportation:									
Office of the Secretary	$17,728	....	$17,728	$65,329	....	$65,329	$49,249	....	$49,249
Coast Guard:									
Trust revolving funds	201	$426	-225	4,286	$4,531	-246	4,407	$4,442	-36
Intragovernmental funds	449	....	449	5,002	....	5,002	-7,337	....	-7,337
Operating expense	58,791	....	58,791	652,273	....	652,273	574,385	....	574,385
Acquisition, construction, and improvements	7,492	....	7,492	106,110	....	106,110	131,486	....	131,486
Retired pay	9,343	....	9,343	104,875	....	104,875	86,397	....	86,397
Other	5,666	....	5,666	60,790	....	60,790	65,619	....	65,619
Total--Coast Guard	81,941	426	81,516	933,337	4,531	928,805	854,958	4,442	850,515
Federal Aviation Administration:									
Aviation war risk insurance revolving fund	5	....	5	26	5,954	-5,928	394	19	375
Operations	137,661	....	137,661	1,394,715	....	1,394,715	1,290,781	....	1,290,781
Civil supersonic aircraft development--termination	99	....	99	13,363	....	13,363	18,733	....	18,733
Other	2,716	....	2,716	30,344	....	30,344	24,131	....	24,131
Airport and airway trust fund:									
Grants-in-aid for airports	30,428	....	30,428	291,870	....	291,870	242,999	....	242,999
Facilities and equipment	19,219	....	19,219	223,351	....	223,351	207,203	....	207,203
Research, engineering and development	2,304	....	2,304	63,612	....	63,612	68,146	....	68,146
Interest on refunds of taxes	....	....	....	7	....	7	39	....	39
Other	-31	....	-31	218	....	218	2,727	....	2,727
Total--Airport and airway trust fund	51,920	....	51,920	579,058	....	579,058	521,114	....	521,114
Total--Federal Aviation Administration	192,400	....	192,400	2,017,507	5,954	2,011,552	1,855,152	19	1,855,134
Federal Highway Administration:									
Highway beautification	4,261	....	4,261	31,074	....	31,074	28,268	....	28,268
Other	2,305	....	2,305	67,653	....	67,653	47,496	....	47,496
Highway trust fund:									
Federal-aid highways	276,797	....	276,797	4,619,181	....	4,619,181	4,464,462	....	4,464,462
Right of way revolving fund	2,001	....	2,001	37,006	....	37,006	23,002	....	23,002
Other	6,659	....	6,659	81,536	....	81,536	22,100	....	22,100
Total--Federal Highway Administration	292,023	....	292,023	4,836,450	....	4,836,450	4,585,327	....	4,585,327
National Highway Traffic Safety Administration:									
Traffic and highway safety	1,820	....	1,820	39,106	....	39,106	38,649	....	38,649
Trust fund share of traffic safety programs	18,100	....	18,100	105,368	....	105,368	89,449	....	89,449
Other	-3,973	....	-3,973	5,158	....	5,158	29,083	....	29,083
Federal Railroad Administration:									
Alaska Railroad revolving fund	5,061	5,928	-867	52,614	54,222	-1,609	26,354	27,424	-1,070
Railroad research and development	3,309	....	3,309	51,078	....	51,078	38,269	....	38,269
Rail service assistance	8,614	....	8,614	169,004	....	169,004	22,518	....	22,518
Grants to National Railroad Passenger Corporation	78,100	....	78,100	299,000	....	299,000	128,600	....	128,600
Other	1,135	....	1,135	14,827	....	14,827	33,643	....	33,643
Total--Federal Railroad Administration	96,219	5,928	90,291	586,522	54,222	532,300	249,384	27,424	221,960
Urban Mass Transportation Administration	136,222	124	136,098	753,742	496	753,246	439,532	20,579	418,954
Saint Lawrence Seaway Development Corporation	537	1,304	-767	5,264	6,764	-1,500	4,700	7,459	-2,759
Proprietary receipts from the public	....	3,349	-3,349	....	29,252	-29,252	....	31,342	-31,342
Total--Department of Transportation	833,017	11,131	821,887	9,347,781	101,219	9,246,562	8,195,482	91,264	8,104,218

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Department of the Treasury:									
Office of the Secretary:									
Public enterprise funds	....	$232	-$232	$90	$3,124	-$3,034	-$6	$504	-$509
Other	$2,595	....	2,595	27,426	....	27,426	19,691	....	19,691
Bureau of Government Financial Operations:[9]									
Check forgery insurance fund	....	....	....	1	....	1	10	....	10
Salaries and expenses	21,805	....	21,805	126,785	....	126,785	88,678	....	88,678
Claims, judgements, and relief acts	107,055	....	107,055	179,332	....	179,332	110,899	....	110,899
Interest on uninvested funds	1,737	....	1,737	8,031	....	8,031	6,091	....	6,091
Payment of Government losses in shipment	74	....	74	210	....	210	413	....	413
Eisenhower College grants	....	....	....	8,333	....	8,333	....	....	....
Special payments to recipients of certain retirement and survivor benefits	[10]1,678,074	....	1,678,074	1,678,074	....	1,678,074	....	....	....
Other	164	....	164	1,714	....	1,714	2,483	....	2,483
Total--Bureau of Government Financial Operations	1,808,909	....	1,808,909	2,002,481	....	2,002,481	208,573	....	208,573
Bureau of Alcohol, Tobacco and Firearms	10,631	....	10,631	94,828	....	94,828	78,822	....	78,822
United States Customs Service:									
Salaries and expenses	31,302	....	31,302	298,539	....	298,539	224,792	....	224,792
Other	11,186	....	11,186	183,329	....	183,329	105,371	....	105,371
Bureau of Engraving and Printing	-2,786	....	-2,786	-4,358	....	-4,358	1,519	....	1,519
Bureau of the Mint	-1,468	....	-1,468	35,421	....	35,421	22,235	....	22,235
Bureau of the Public Debt	9,490	....	9,490	100,222	....	100,222	75,909	....	75,909
Internal Revenue Service:									
Federal tax lien revolving fund	43	67	-24	495	380	114	320	311	9
Salaries and expenses	4,853	....	4,853	42,825	....	42,825	35,815	....	35,815
Accounts, collection and taxpayer service	80,096	....	80,096	731,096	....	731,096	585,976	....	585,976
Compliance	91,535	....	91,535	827,859	....	827,859	651,888	....	651,888
Interest on refunds of taxes	16,385	....	16,385	235,628	....	235,628	220,243	....	220,243
Payments to Puerto Rico for taxes collected	11,278	....	11,278	121,519	....	121,519	101,484	....	101,484
Total--Internal Revenue Service	204,189	67	204,122	1,959,421	380	1,959,041	1,595,726	311	1,595,415
United States Secret Service	8,930	....	8,930	85,775	....	85,775	68,041	....	68,041
Office of the Comptroller of the Currency	7,713	391	7,323	65,458	57,654	7,804	47,577	52,052	-4,475
Interest on the public debt (accrual basis):									
Public issues	2,167,477	....	2,167,477	25,165,328	....	25,165,328	22,898,573	....	22,898,573
Special issues	597,482	....	597,482	7,499,680	....	7,499,680	6,420,360	....	6,420,360
Total--Interest on the public debt	2,764,959	....	2,764,959	32,665,008	....	32,665,008	29,318,933	....	29,318,933
General revenue sharing	4,770	....	4,770	6,137,917	....	6,137,917	6,105,921	....	6,105,921
Proprietary receipts from the public	....	31,176	-31,176	....	563,581	-563,581	....	371,338	-371,338
Receipts from Off-budget Federal agencies	....	66,299	-66,299	....	504,727	-504,727	....	205,489	-205,489
Intrabudgetary transactions	-186,573	....	-186,573	-1,344,941	....	-1,344,941	-1,250,661	....	-1,250,661
Total--Department of the Treasury	4,673,849	98,166	4,575,683	42,306,616	1,129,466	41,177,149	36,622,446	629,695	35,992,751

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TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Energy Research and Development Administration[11]	$382,432	$125	$382,307	$3,211,574	$13,375	3,198,199	$2,370,123	$7,921	$2,362,202
Environmental Protection Agency:									
Revolving fund for certification and other services	(*)	126	-126	405	651	-246	693	506	187
Research and development	12,703	....	12,703	166,608	....	166,608	118,496	....	118,496
Abatement and control	26,819	....	26,819	265,349	....	265,349	193,371	....	193,371
Construction grants	264,148	....	264,148	1,937,575	....	1,937,575	1,553,421	....	1,553,421
Other	32,497	....	32,497	161,408	....	161,408	166,892	....	166,892
Proprietary receipts from the public	....	78	-78	....	232	-232	....	268	-268
Total--Environmental Protection Agency	336,167	204	335,964	2,531,346	883	2,530,463	2,032,873	773	2,032,100
General Services Administration:									
Real property activities	42,228	....	42,228	145,724	....	145,724	830,469	....	830,469
Personal property activities:									
Intragovernmental funds	-732	....	-732	8,112	....	8,112	30,466	....	30,466
Federal supply service, operating expenses	12,646	....	12,646	151,552	....	151,552	104,945	....	104,945
Records activities	5,642	747	4,895	60,290	5,901	54,389	45,374	5,700	39,674
Automated data and telecommunications activities:									
Intragovernmental funds	9,271	....	9,271	-6,283	....	-6,283	7,985	....	7,985
Other	795	....	795	7,020	....	7,020	6,606	....	6,606
Property management and disposal activities	-280	....	-280	4,143	....	4,143	18,992	....	18,992
Preparedness Activities	1,654	....	1,654	8,257	342	7,915	8,398	30	8,368
General activities:									
Public enterprise funds	....	....	....	23	1,087	-1,065	5	965	-959
Intragovernmental funds	80	....	80	831	....	831	1,141	....	1,141
Other	6,705	....	6,705	58,676	....	58,676	5,918	....	5,918
Proprietary receipts from the public:									
Stockpile receipts	....	108,312	-108,312	....	989,520	-989,520	....	1,282,161	-1,282,161
Other	....	8,652	-8,652	....	53,676	-53,676	....	40,944	-40,944
Intrabudgetary transaction	-3,302	....	-3,302	-11,872	....	-11,872	-6,332	....	-6,332
Total--General Services Administration	74,706	117,711	-43,005	426,473	1,050,527	-624,054	1,053,968	1,329,799	-275,831
National Aeronautics and Space Administration:									
Research and development	105,030	....	105,030	2,420,387	....	2,420,387	2,421,552	....	2,421,552
Construction of facilities	10,543	....	10,543	85,307	....	85,307	75,127	....	75,127
Research and program management	69,303	....	69,303	760,797	....	760,797	759,537	....	759,537
Other	231	....	231	3,931	....	3,931	1,445	....	1,445
Proprietary receipts from the public	....	-119	119	....	3,714	-3,714	....	5,355	-5,355
Total--National Aeronautics and Space Administration	185,107	-119	185,226	3,270,422	3,714	3,266,708	3,257,661	5,355	3,252,305
Veterans Administration:									
Public enterprise funds:									
Loan guaranty revolving fund	35,697	18,049	17,648	420,438	348,883	71,555	455,410	390,808	64,602
Direct loan revolving fund	8,018	12,763	-4,745	108,064	149,511	-41,447	93,726	193,114	-99,388
Veterans special life	....	....	....	....	....	....	....	....	....
Education loan fund	383	14	369	1,448	46	1,402	....	....	....
Other	28,337	40,498	-12,161	273,991	305,138	-31,147	208,509	241,139	-32,630
Compensation and pensions	645,983	....	645,983	7,580,717	....	7,580,717	6,633,219	....	6,633,219
Readjustment benefits	348,556	....	348,556	4,591,079	....	4,591,079	3,248,899	....	3,248,899
Medical care	363,801	....	363,801	3,405,053	....	3,405,053	2,789,001	....	2,789,001
Medical and prosthetic research	9,712	....	9,712	93,196	....	93,196	77,696	....	77,696

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
erans Administration--Continued									
eneral operating expenses	$42,897	...	$42,897	$444,566	...	$444,566	$336,976	...	$336,97
nsurance funds:									
Government life	5,188	$672	4,516	95,078	$9,383	85,695	86,967	$9,240	77,72
National service life	43,276	7,370	35,906	825,311	94,551	730,760	710,706	87,823	622,88
Veterans special life insurance fund	1,869	14,532	-12,662	27,561	68,818	-41,257	23,037	64,127	-41,09
ther	11,770	11	11,760	161,032	172	160,859	138,737	160	138,57
roprietary receipts from the public:									
Government life insurance fund	...	651	-651	...	6,830	-6,830	...	7,301	-7,30
National service life insurance fund	...	43,491	-43,491	...	464,948	-464,948	...	468,036	-468,03
Other	...	234	-234	...	2,145	-2,145	...	2,081	-2,08
ntrabudgetary transactions:									
Payments to veterans life insurance funds:									
Government life insurance fund	(*)	...	(*)	-27	...	-27	-45	...	-4
National service life insurance fund	-152	...	-152	-2,074	...	-2,074	-2,138	...	-2,13
Total--Veterans Administration	1,545,335	138,286	1,407,049	18,025,433	1,450,426	16,575,008	14,800,701	1,463,828	13,336,87
lependent agencies:									
Action	16,204	4	16,200	178,397	147	178,250	166,943	195	166,74
Arms Control and Disarmament Agency	3,119	...	3,119	9,726	(*)	9,726	8,894	(*)	8,89
Board for International Broadcasting	16	...	16	49,858	...	49,858	50,674	...	50,674
Civil Aeronautics Board:									
Payments to air carriers	5,165	...	5,165	63,581	...	63,581	73,362	...	73,362
Salaries and expenses	1,370	...	1,370	17,437	...	17,437	15,297	...	15,297
Proprietary receipts from the public	...	5	-5	...	134	-134	...	146	-146
Civil Service Commission:									
Civil service retirement and disability fund	629,773	...	629,773	7,071,144	...	7,071,144	5,668,972	...	5,668,972
Payment to civil service retirement and disability fund	3,791,292	...	3,791,292	3,792,282	...	3,792,282	2,384,313	...	2,384,313
Government payment for annuitants, employees health benefits	51,000	...	51,000	251,000	...	251,000	163,114	...	163,114
Employees health benefits fund	141,318	197,039	-55,721	1,711,895	1,774,974	-63,079	1,425,169	1,487,290	-62,121
Employees life insurance fund	-41,207	57,460	-98,666	304,605	608,265	-303,660	360,240	515,768	-155,528
Retired employees health benefits fund	1,163	-56	1,219	17,687	11,928	5,760	17,311	12,041	5,271
Other	8,390	...	8,390	102,584	...	102,584	88,583	...	88,583
Proprietary receipts from the public	...	1	-1	...	85	-85	...	730	-730
Intrabudgetary transactions:									
Civil service retirement and disability fund:									
Receipts transferred to foreign service retirement and disability fund	-400	...	-400	-27,427	...	-27,427	-15,279	...	-15,279
General fund contributions	-3,791,292	...	-3,791,292	-3,792,282	...	-3,792,282	-2,384,236	...	-2,384,236
Total--Civil Service Commission	790,038	254,443	535,594	9,431,488	2,395,252	7,036,236	7,708,188	2,015,828	5,692,360
Commission on Civil Rights	739	...	739	6,920	...	6,920	6,056	...	6,056
Community Services Administration	54,942	60	54,882	543,589	238	543,351	680,813	338	680,474
Consumer Product Safety Commission	4,806	(*)	4,806	34,213	2	34,211	18,711	2	18,709
Corporation for Public Broadcasting	...	...	...	62,000	...	62,000	47,750	...	47,750
District of Columbia:									
Federal payment	5,000	...	5,000	231,800	...	231,800	191,533	...	191,533
Loans and repayable advances	20,072	25,000	-4,928	232,938	35,425	197,512	153,543	12,943	140,599
Emergency Loan Guarantee Board	18	111	-93	-5,570	1,574	-7,144	-2,863	2,006	-4,868
Equal Employment Opportunity Commission	5,463	-4	5,467	56,131	10	56,120	42,103	5	42,098

footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Independent agencies--Continued									
Federal Communications Commission	$3,631	$1	$3,630	$47,963	$25	$47,938	$38,146	$22	$38,124
Federal Deposit Insurance Corporation	40,164	36,843	3,322	553,878	961,559	-407,682	474,330	698,063	-223,733
Federal Energy Administration	6,929	....	6,929	120,697	26	120,671	29,580	....	29,580
Federal Home Loan Bank Board:									
Public enterprise funds:									
Federal Savings and Loan Insurance Corp. Fund	6,131	16,033	-9,902	-35,669	279,961	-315,630	8,380	385,455	-377,075
Federal Home Loan Bank Board Revolving Fund	101,393	3,244	98,149	1,308,445	71,093	1,237,352	39,455	34,785	4,670
Interest adjustment payments	148	....	148	2,478	....	2,478	2,707	....	2,707
Federal Maritime Commission	697	2	694	7,250	22	7,229	6,488	13	6,475
Federal Mediation and Conciliation Service	1,679	(*)	1,679	15,498	1	15,497	11,783	1	11,782
Federal Power Commission	3,340	-265	3,605	34,424	17	34,407	26,669	13	26,656
Federal Trade Commission	4,074	3	4,071	38,732	29	38,703	32,359	20	32,339
Foreign Claims Settlement Commission	109	....	109	1,272	....	1,272	5,630	....	5,630
Historical and Memorial Commissions	2,084	49	2,035	17,764	6,183	11,581	10,527	5,286	5,241
Indian Claims Commission	119	(*)	119	1,243	(*)	1,243	1,161	(*)	1,161
Intergovernmental agencies:									
Washington Metropolitan Area Transit Authority	11,628	....	11,628	175,306	....	175,306	170,453	....	170,453
Other	281	119	162	3,807	1,450	2,357	4,070	1,215	2,855
International Trade Commission	982	....	982	8,296	....	8,296	7,079	....	7,079
Interstate Commerce Commission	3,617	2	3,615	46,148	2,186	43,962	38,097	367	37,731
National Capital Planning Commission	276	(*)	276	1,742	(*)	1,742	1,510	(*)	1,509
National Credit Union Administration	1,393	1,111	282	19,591	33,128	-13,537	12,300	24,914	-12,615
National Foundation on the Arts and the Humanities	17,464	1	17,464	128,084	2	128,082	96,329	5	96,324
National Labor Relations Board	4,458	16	4,442	61,100	211	60,889	55,312	239	55,073
National Science Foundation	51,804	(*)	51,804	662,372	207	662,165	651,630	331	651,298
National Transportation Safety Board	1,390	3	1,387	8,629	13	8,617	8,171	....	8,171
Nuclear Regulatory Commission	20,659	2	20,657	52,792	2	52,791	....	....	....
Occupational Safety and Health Review Commission	585	....	585	5,292	....	5,292	4,596	....	4,596
Postal Service:									
Payment to the postal service fund	46,456	....	46,456	1,877,112	....	1,877,112	1,698,000	....	1,698,000
Railroad Retirement Board:									
Payment to railroad retirement trust funds	....	....	....	3,516	....	3,516	22,478	....	22,478
Railroad retirement accounts:									
Administrative expenses	2,336	....	2,336	25,231	....	25,231	21,603	....	21,603
Benefit payments, etc.	296,889	....	296,889	3,052,039	....	3,052,039	2,648,544	....	2,648,544
Interest on refunds of taxes	2	....	2	18	....	18	15	....	15
Payment to railroad unemployment ins. account	....	....	....	....	....	....	5,067	....	5,067
Proprietary receipts from the public	....	(*)	(*)	....	(*)	(*)	....	(*)	(*)
Intrabudgetary transactions:									
Railroad retirement accounts:									
Payment to railroad retirement trust funds	....	....	....	-3,516	....	-3,516	-22,478	....	-22,478
Payment from railroad retirement supplemental receipts transferred to railroad unemployment insurance account	....	....	....	....	....	....	-5,067	....	-5,067
Interest transferred to federal hospital insurance trust fund	....	....	....	5,748	....	5,748	2,939	....	2,939
Total--Railroad Retirement Board	299,226	(*)	299,226	3,083,037	(*)	3,083,036	2,673,100	(*)	2,673,100
Securities and Exchange Commission	3,439	(*)	3,438	44,419	23	44,395	34,537	21	34,516
Selective Service System	3,486	(*)	3,485	48,465	3	48,463	59,525	22	59,503

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Independent agencies--Continued									
Small Business Administration:									
Public enterprise funds:									
Business loan and investment fund	$81,776	$29,617	$52,159	$717,773	$313,628	$404,146	$574,613	$311,073	$263,540
Disaster loan fund	38,302	17,481	20,821	354,176	177,265	176,911	641,242	175,624	465,618
Surety bond guarantees revolving fund	819	293	527	16,392	2,838	13,554	....	....	....
Lease guarantees revolving fund	320	56	264	3,414	1,107	2,307	7,417	5,326	2,091
Salaries and expenses	-3,621	....	-3,621	21,493	....	21,493	21,909	....	21,909
Proprietary receipts from the public	....	1	-1	....	517	-517	....	11	-11
Intrabudgetary transactions	....	....	....	(*)	....	(*)	....	....	....
Total--Small Business Administration	117,597	47,448	70,149	1,113,249	495,355	617,893	1,245,181	492,034	753,147
Smithsonian Institution	9,140	10	9,131	103,132	29	103,103	84,288	22	84,265
Temporary Study Commissions	1,451	88	1,363	14,199	588	13,610	7,181	550	6,631
Tennessee Valley Authority:									
Tennessee Valley Authority fund	245,824	139,736	106,088	1,976,757	1,209,502	767,255	1,265,175	864,038	401,137
Proprietary receipts from the public	....	3	-3	....	30	-30	....	32	-32
Total--Tennessee Valley Authority	245,824	139,739	106,085	1,976,757	1,209,532	767,225	1,265,175	864,070	401,105
United States Information Agency:									
Salaries and expenses	39,675	....	39,675	231,431	....	231,431	208,122	....	208,122
Special international exhibitions	610	....	610	7,096	....	7,096	5,136	....	5,136
Other	169	....	169	1,742	....	1,742	1,639	....	1,639
Proprietary receipts from the public	....	46	-46	....	736	-736	....	521	-521
Total--U.S. Information Agency	40,454	46	40,408	240,269	736	239,533	214,897	521	214,377
United States Railway Association	3,200	....	3,200	22,700	....	22,700	1,200	....	1,200
Water Resources Council	1,322	16	1,306	10,628	1,213	9,415	7,694	906	6,788
Other independent agencies	3,485	1,693	1,791	24,592	6,646	17,946	20,907	5,801	15,106
Total--Independent agencies	1,967,065	525,825	1,441,240	22,758,196	5,503,023	17,255,173	18,209,448	4,546,139	13,663,309
Undistributed offsetting receipts:									
Federal employer contributions to retirement and social insurance funds:									
Legislative Branch:									
United States Tax Court:									
Tax court judges survivors annuity fund	....	....	....	-30	....	-30	-30	....	-30
The Judiciary:									
Judicial survivors annuity fund	-1	....	-1	-751	....	-751	-751	....	-751
Department of Health, Education, and Welfare:									
Federal old-age and survivors insurance trust fund	-75,000	....	-75,000	-810,000	....	-810,000	-677,000	....	-677,000
Federal disability insurance trust fund	-9,000	....	-9,000	-106,000	....	-106,000	-87,000	....	-87,000
Federal hospital insurance trust fund	-18,000	....	-18,000	-166,000	....	-166,000	-147,000	....	-147,000
Department of State:									
Foreign service retirement and disability fund	-1,159	....	-1,159	-12,598	....	-12,598	-9,351	....	-9,351
Other independent agencies:									
Civil Service Commission:									
Civil service retirement and disability fund	-194,189	....	-194,189	-1,918,235	....	-1,918,235	-1,756,301	....	-1,756,301
Receipts from off-budget Federal agencies:									
Other independent agencies:									
Civil Service Commission:									
Civil Service Retirement and Disability Fund	-243,247	....	-243,247	-966,591	....	-966,591	-642,031	....	-642,031
Subtotal	-540,596	....	-540,596	-3,980,206	....	-3,980,206	-3,319,464	....	-3,319,464

See footnotes on page 3.

TABLE III--BUDGET RECEIPTS AND OUTLAYS--Continued (In thousands)

Classification of OUTLAYS--Continued	This Month			Current Fiscal Year to Date			Comparable Period Prior Fiscal Year		
	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays	Outlays	Applicable Receipts	Net Outlays
Undistributed offsetting receipts--Continued									
Interest on certain Government accounts:									
Interest credited to certain Government accounts:									
The Judiciary:									
Judicial survivors annuity fund	-$9	....	-$9	-$586	....	-$586	-$428	....	-$428
Department of Defense:									
Civil:									
Soldiers' and Airmen's Home permanent fund	-1,628	....	-1,628	-6,759	....	-6,759	-4,112	....	-4,112
Department of Health, Education, and Welfare:									
Federal old-age and survivors ins. trust fund	-1,003,255	....	-1,003,255	-2,296,332	....	-2,296,332	-2,039,730	....	-2,039,730
Federal disability insurance trust fund	-236,298	....	-236,298	-511,841	....	-511,841	-479,022	....	-479,022
Federal hospital insurance trust fund	-298,928	....	-298,928	-607,134	....	-607,134	-408,542	....	-408,542
Federal supplementary medical ins. trust fund	-44,791	....	-44,791	-104,403	....	-104,403	-77,243	....	-77,243
Department of Labor:									
Unemployment trust fund	-144,287	....	-144,287	-639,167	....	-639,167	-649,666	....	-649,666
Department of State:									
Foreign service retirement and disability fund	-3,583	....	-3,583	-7,162	....	-7,162	-3,752	....	-3,752
Department of Transportation:									
Airport and airway trust fund	-57,398	....	-57,398	-95,957	....	-95,957	-28,107	....	-28,107
Highway trust fund	-296,483	....	-296,483	-585,638	....	-585,638	-414,574	....	-414,574
Veterans Administration:									
Government life insurance fund	-15,027	....	-15,027	-30,823	....	-30,823	-31,098	....	-31,098
National service life insurance fund	-175,567	....	-175,567	-368,048	....	-368,048	-338,258	....	-338,258
Civil Service Commission:									
Civil service retirement and disability fund	-963,021	....	-963,021	-2,135,524	....	-2,135,524	-1,837,601	....	-1,837,601
Railroad Retirement Board:									
Railroad retirement accounts	-110,680	....	-110,680	-274,453	....	-274,453	-257,039	....	-257,039
Other	-5,387	....	-5,387	-26,175	....	-26,175	-8,632	....	-8,632
Adjustment of interest on public debt issues to convert to the accrual basis	2,591,500	....	2,591,500	....	....	....	....	....	....
Subtotal	-764,840	....	-764,840	-7,690,002	....	-7,690,002	-6,577,804	....	-6,577,804
Rents and royalties on the outer continental shelf lands	....	$295,420	-295,420	....	$2,427,965	-2,427,965	....	$6,748,394	-6,748,394
Total--Undistributed offsetting receipts	-1,305,436	295,420	-1,600,857	-11,670,208	2,427,965	-14,098,173	-9,897,268	6,748,394	-16,645,662
Total outlays	33,676,874	3,381,302	30,295,572	359,758,034	35,157,074	324,600,960	302,621,804	34,229,821	268,391,983
TOTAL BUDGET			(Net Totals)			(Net Totals)			(Net Totals)
Receipts (+)			31,816,664			280,996,840			264,932,401
Outlays (-)			-30,295,572			-324,600,960			-268,391,983
Budget surplus (+) or deficit (-)			1,521,092			-43,604,120			-3,459,583

MEMORANDUM

Receipts offset against outlays (In thousands)

	Current Fiscal Year to Date	Comparable Period Prior Fiscal Year
Proprietary receipts	$11,266,358	$14,241,414
Receipts from off-budget Federal agencies	504,727	205,489
Intrabudgetary transactions	28,388,842	23,870,115
Total receipts offset against outlays	40,159,926	38,317,019

TABLE IV--MEANS OF FINANCING (In thousands)

Classification (Assets and Liabilities Directly Related to the Budget)	Net Transactions (-) denotes net reduction of either liability or assets accounts: This Month	Fiscal Year to Date: This Year	Fiscal Year to Date: Prior Year	Account Balances Current Fiscal Year, Beginning of: This Year	Beginning of: This Month	Close of This Month
LIABILITY ACCOUNTS						
Borrowing from the public:						
Public debt securities, issued under general financing authorities:						
Obligations of the United States, issued by:						
United States Treasury	$5,030,269	$58,944,447	$16,918,210	[12]$474,234,816	$528,148,994	$533,179,263
Federal Financing Bank	-460	9,000	....	....	9,460	9,000
Total public debt securities	5,029,809	58,953,447	16,918,210	474,234,816	528,158,454	533,188,263
Agency securities, issued under special financing authorities (See Schedule B. For other agency borrowing, see Schedule C.)	-55,203	-1,069,141	903,209	12,012,272	10,998,334	10,943,131
Total federal securities	4,974,606	57,884,306	17,821,420	486,247,088	539,156,788	544,131,393
Deduct:						
Federal securities held as investments of government accounts (See Schedule D)	4,407,351	7,031,178	14,812,849	140,193,922	142,817,748	147,225,099
Total borrowing from the public	567,254	50,853,128	3,008,571	346,053,166	396,339,040	396,906,294
Accrued interest payable on public debt securities	-2,077,142	398,631	46,613	2,920,613	5,396,385	3,319,243
Deduct:						
Accrued interest receivable on public debt securities held as investments of government accounts	-2,617,914	-26,414	357,447	357,447	2,948,947	331,033
Total accrued interest payable to the public	540,772	425,045	-310,834	2,563,166	2,447,438	2,988,210
Deposit funds:						
Allocations of special drawing rights	-23,867	68,969	276,733	2,767,339	2,860,174	2,836,308
Other	-320,992	510,473	-296,062	3,357,391	4,188,855	3,867,863
Miscellaneous liability accounts (Includes checks outstanding etc.)	-3,822,315	-366,117	313,251	7,813,617	11,269,815	7,447,500
Total liability accounts	-3,059,147	51,491,497	2,991,659	362,554,679	417,105,322	414,046,175
ASSET ACCOUNTS (Deduct)						
Cash and monetary assets:[13]						
U.S. Treasury operating cash	-949,038	-1,570,086	-3,416,725	9,159,226	8,538,179	7,589,140
Special drawing rights:						
Total holdings	-20,344	222,925	245,288	2,194,738	2,438,007	2,417,663
SDR certificates issued to Federal Reserve Banks	....	-100,000	....	-400,000	-500,000	-500,000
Balance	-20,344	122,925	245,288	1,794,738	1,938,007	1,917,663
Gold tranche drawing rights:						
U.S. subscription to International Monetary Fund:						
Direct quota payments (see note on page 24)	....	....	....	6,700,000	6,700,000	6,700,000
Maintenance of value adjustments (see note on page 24)	201,436	201,436	808,251	1,382,534	1,382,534	1,583,970
Special notes issued to IMF	....	[14] 825,000	....	-825,000	....	....
Other demand liabilities issued to IMF	-21,000	248,000	-283,492	-6,167,242	-5,898,242	-5,919,242
Receivable/Payable (-) for U.S. currency valuation adjustment (see note on page 24)	-153,639	-153,639	....	....	....	-153,639
Balance	26,797	1,120,797	524,759	1,090,292	2,184,292	2,211,088
Other cash and monetary assets	48,982	646,532	119,130	3,549,185	4,146,735	4,195,717
Total cash and monetary assets	-893,604	320,167	-2,527,548	15,593,442	16,807,212	15,913,609
Miscellaneous asset accounts	-1,251,139	-1,329,763	1,281,389	4,116,373	4,037,749	2,786,610
Total asset accounts	-2,144,743	-1,009,597	-1,246,159	19,709,815	20,844,961	18,700,219
Excess of liabilities (+) or assets (-)	-914,404	+52,501,093	+4,237,818	+342,844,864	+396,260,361	+395,345,957
Transactions not applied to current year's surplus or deficit (See Schedule A for details)	-606,688	-8,896,973	-778,236	....	-8,290,285	-8,896,973
Total budget financing [Financing of deficit (+) or disposition of surplus (-)]	-1,521,092	+43,604,120	+3,459,583	+342,844,864	+387,970,076	+386,448,984

See footnotes on page 3.

TABLE IV--SCHEDULE A--ANALYSIS OF CHANGE IN EXCESS OF LIABILITIES (In thousands)

Classification	This Month	Fiscal Year to Date	
		This Year	Prior Year
Excess of liabilities beginning of period:			
Based on composition of unified budget in preceding period	$396,260,361	$342,844,864	$338,607,046
Adjustments during current fiscal year for changes in composition of unified budget	....	....	....
Excess of liabilities beginning of period (current basis)	396,260,361	342,844,864	338,607,046
Budget surplus (-) or deficit:			
Based on composition of unified budget in prior fiscal year	-1,521,092	43,604,120	3,459,583
Adjustments during current fiscal year for changes in composition of unified budget	....	....	....
Budget surplus (-) or deficit (Table III)	-1,521,092	43,604,120	3,459,583
Transactions not applied to current year's surplus or deficit:			
Seigniorage	-64,469	-626,373	-320,707
Increment on gold	....	(*)	-1,219,103
Net gain (-)/loss for U.S. currency valuation adjustment (see note below)	-47,797	-47,797	....
Conversion of interest receipts of government accounts to an accrual basis	26,414	26,414	-357,447
Off-budget Federal agencies:			
Export-Import Bank of the United States	36,612	1,503,701	1,228,276
Pension Benefit Guaranty Corporation	-119	-34,047	....
Postal Service	462,227	1,112,248	773,277
Rural electrification and telephone revolving fund	54,821	476,670	484,402
Rural telephone bank	14,284	109,701	87,537
Housing for the elderly or handicapped fund	-1,137	-12,928	....
Federal Financing Bank	125,852	6,389,383	102,000
Total--transactions not applied to current year's surplus or deficit	606,688	8,896,973	778,236
Excess of liabilities close of period	395,345,957	395,345,957	342,844,864

See footnotes on page 3.

Note: Beginning with this issue, the U.S. subscription to International Monetary Fund of $8.083 billion is reflected on two lines--Direct quota payments and Maintenance of value adjustments (IMF currency valuation adjustments and par value modifications). The balance of $6.7 billion represents the U.S. subscription of $6.7 billion SDR's when SDR 1 = $1.00. The balance of $1.383 billion represents adjustments reported in May 1972 and October 1973 in the amounts of $574,283,000 and $808,251,000 respectively, for the Par Value Modification Act, as amended.

Includes the following currency valuation adjustments for fiscal year 1975; future adjustments will be reported monthly:

	MOV adjustments	Receivable/payable (-)	Gain(-)/loss		MOV adjustments	Receivable/payable (-)	Gain(-)/loss
1974-July	-22,703	19,798	2,905	1975-Jan.	97,483	-75,168	-22,315
Aug.	-123,021	102,409	20,612	Feb.	143,925	-108,241	-35,684
Sept.	16,931	-13,732	-3,199	Mar.	-86,518	63,541	22,977
Oct.	53,153	-41,632	-11,521	Apr.	-40,383	29,848	10,535
Nov.	79,454	-61,776	-17,678	May	36,028	-26,779	-9,249
Dec.	116,796	-90,499	-26,297	Jun.	-69,709	48,592	21,117
				Totals	201,436	-153,639	-47,797

TABLE IV--SCHEDULE B--AGENCY SECURITIES, ISSUED UNDER SPECIAL FINANCING AUTHORITIES (In thousands)

Classification	Net Transactions (-) denotes net reduction of liability accounts			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Agency securities, issued under special financing authorities:						
Obligations of the United States, issued by:						
Export-Import Bank	....	-$300,620	$672,679	$2,893,735	$2,593,115	$2,593,11
Obligations guaranteed by the United States, issued by:						
Department of Defense:						
Family Housing Mortgages	-$6,389	-105,185	-102,861	1,377,977	1,279,180	1,272,79
Department of Housing and Urban Development:						
Federal Housing Administration	2,409	78,882	-3,597	408,053	484,526	486,93
Department of Transportation:						
Coast Guard:						
Family Housing Mortgages	....	-179	-172	2,456	2,277	2,27
Obligations not guaranteed by the United States, issued by:						
Department of Defense:						
Homeowners Assistance Mortgages	-1,224	-595	896	3,607	4,236	3,01
Department of Housing and Urban Development:						
Government National Mortgage Association	....	-110,000	-110,000	4,370,000	4,260,000	4,260,00
Department of the Treasury:						
Federal Farm Mortgage Corporation Liquidation Fund	....	-61	-4	61	....	....
Independent agencies:						
Federal Home Loan Bank Board:						
Federal Home Loan Bank Board Revolving Fund	....	-10,190	5,279	10,190	....	....
Homeowners' Loan Corporation	....	-193	-10	193	....	....
Postal Service	....	....	....	250,000	250,000	250,00
Tennessee Valley Authority	-50,000	-621,000	441,000	2,696,000	2,125,000	2,075,00
Total agency securities	-55,203	-1,069,141	903,209	12,012,272	10,998,334	10,943,13

TABLE IV--SCHEDULE C (MEMORANDUM)--AGENCY BORROWING FINANCED THROUGH ISSUE OF PUBLIC DEBT SECURITIES (In thousands)

Classification	Transactions			Account Balances Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Borrowing from the Treasury:						
Agency for International Development	-$94,287	-$94,287	-$46,491	$327,311	$327,311	$233,024
Commodity Credit Corporation	141,096	-3,561,667	-2,256,284	8,608,036	4,905,273	5,046,369
Export-Import Bank of the United States	53,353	-2,249,825	569,238	2,456,902	153,724	207,077
Federal Financing Bank	351,736	12,864,003	602,000	602,000	13,114,267	13,466,003
Federal Home Loan Bank Board	98,500	1,247,488	....	....	1,148,988	1,247,488
Federal Housing Administration:						
General insurance fund	202,268	730,268	476,000	1,307,000	1,835,000	2,037,268
Special risk insurance fund	75,000	485,000	345,000	1,155,000	1,565,000	1,640,000
Government National Mortgage Association:						
Emergency Home Purchase Assistance fund	70,400	504,680	....	....	434,280	504,680
Management and liquidating functions	-15,590	-16,710	-5,320	74,900	73,780	58,190
Special assistance functions	-109,440	1,791,560	86,020	3,058,435	4,959,435	4,849,995
Department of Health, Education, and Welfare:						
Commissioner of Education, student loan insurance fund	....	....	-15,000	....	....	....
Rural Electrification Administration	....	445,772	400,694	6,963,336	7,409,108	7,409,108
Rural Telephone Bank	15,700	82,648	49,422	49,422	116,370	132,070
Saint Lawrence Seaway Development Corporation	....	-1,200	-2,200	121,076	119,876	119,876
Secretary of Agriculture, Farmers Home Administration:						
Rural housing insurance fund	-950,000	-925,000	925,000	1,480,718	1,505,718	555,718
Agricultural credit insurance fund	....	....	....	676,000	676,000	676,000
Rural development insurance fund	-138,711	-138,711	10,000	388,711	388,711	250,000
Secretary of the Department of Housing and Urban Development:						
College housing loans	....	....	....	2,811,000	2,811,000	2,811,000
Low-rent public housing	....	....	....	....	....	....
National flood insurance fund	....	16,045	42,833	53,879	69,924	69,924
Public facility loans	....	25,000	20,000	360,500	385,500	385,500
Urban renewal fund	....	....	....	800,000	800,000	800,000
Secretary of the Interior:						
Bureau of Mines, helium fund	....	....	....	251,650	251,650	251,650
Secretary of Transportation:						
Washington Metropolitan Area Transit Authority	....	....	-4,505	....	....	....
Smithsonian Institution:						
John F. Kennedy Center parking facilities	....	....	....	20,400	20,400	20,400
Tennessee Valley Authority	....	50,000	....	100,000	150,000	150,000
United States Information Agency	....	....	....	22,114	22,114	22,114
Veterans Administration:						
Veterans direct loan program	....	....	....	1,730,078	1,730,078	1,730,078
Defense Production Act of 1950, as amended:						
General Services Administration	....	-1,877,500	....	1,877,500	....	....
Secretary of Agriculture	....	-98,608	867	98,608	....	....
Secretary of the Interior, Defense Minerals Exploration Administration	....	-38,800	....	38,800	....	....
D.C. Commissioners: Stadium sinking fund, Armory Board, D.C.	416	....	....	831	416	832
Total Borrowing from the Treasury	*-299,559*	*9,240,156*	*1,197,274*	*35,434,207*	*44,973,923*	*44,674,364*
Borrowing from the Federal Financing Bank:						
Postal Service	....	1,000,000	500,000	500,000	1,500,000	1,500,000
Tennessee Valley Authority	225,000	1,435,000	....	....	1,210,000	1,435,000
Export-Import Bank of the United States	....	4,049,400	....	....	4,049,400	4,049,400
Total Borrowing from the Federal Financing Bank	*225,000*	*6,484,400*	*500,000*	*500,000*	*6,759,400*	*6,984,400*
Total Agency Borrowing financed through issues of Public Debt Securities	-74,559	15,724,556	1,697,274	35,934,207	51,733,323	51,658,764

Note: Includes only amounts loaned to Federal Agencies in lieu of Agency Debt issuance and excludes Federal Financing Bank purchase of loans made or guaranteed by Federal Agencies. The Federal Financing Bank borrows from Treasury and issues its own securities and in turn may loan these funds to Agencies in lieu of Agencies borrowing directly through Treasury or issuing their own securities.

TABLE IV--SCHEDULE D--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES (In thousands)

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Month	Prior Year	This Year	This Month	
Federal Funds:						
Department of Agriculture:						
Agency securities	....	-$6,000	-$6,000	$47,215	$41,215	$41,215
Department of Commerce	....	16,012	14,800	62,911	78,923	78,923
Department of Housing and Urban Development:						
Federal Housing Administration:						
Federal housing administration fund:						
Public debt securities	-$242	199,657	68,450	1,206,827	1,406,726	1,406,484
Agency securities	(*)	-65	-5,710	191,288	191,222	191,222
Government National Mortgage Association:						
Special assistance function fund:						
Agency securities	111	6,472	-5,731	84,802	91,164	91,274
Management and liquidating functions fund:						
Agency securities	-142	-4,208	-916	47,120	43,054	42,912
Guarantees Of Mortgage-Backed Securities:						
Public debt securities	1,463	7,345	7,876	15,958	21,840	23,303
Agency securities	-664	2,378	....	....	3,043	2,378
Participation sales fund:						
Public debt securities	28,807	249,018	191,193	1,068,309	1,288,520	1,317,327
Agency securities	....	-25,925	-7,455	112,670	86,745	86,745
Housing Management:						
Community disposal operations fund:						
Agency securities	....	....	....	388	388	388
Rental housing assistance fund	154	14,737	11,001	19,572	34,155	34,309
New Communities Administration:						
New communities fund	-1,325	-6,500	3,640	11,978	6,803	5,478
Federal Insurance Administration:						
National insurance development fund	-12,300	-7,800	4,800	85,786	90,286	77,986
Department of the Interior:						
Bonneville Power Administration	-165,564	10,815	....	....	176,379	10,815
Department of Treasury	-1,146,861	-912,537	-570,156	2,363,945	2,598,269	1,451,408
Veterans Administration:						
Veterans reopened insurance fund	11,054	32,798	31,322	284,315	306,059	317,113
Veterans special life insurance fund	12,083	41,586	37,937	390,575	420,078	432,161
Independent agencies:						
Emergency Loan Guarantee Board	75	7,232	4,755	9,070	16,227	16,302
Federal Savings and Loan Insurance Corporation:						
Public debt securities	9,865	315,511	377,767	3,284,343	3,589,989	3,599,854
Agency securities	27	27	....	141,950	141,950	141,977
National Credit Union Administration	970	13,574	13,680	40,769	53,373	54,343
Other	5,115	34,720	37,410	170,630	200,235	205,350
Total public debt securities	-1,256,706	16,168	234,474	9,014,988	10,287,862	9,031,156
Total agency securities	-670	-27,321	-25,811	625,432	598,780	598,111
Total Federal funds	-1,257,376	-11,153	208,663	9,640,420	10,886,642	9,629,267
Trust Funds:						
Legislative Branch:						
United States Tax Court	....	70	50	398	468	468
Library of Congress	-138	1,340	....	....	1,478	1,340
The Judiciary:						
Judicial Survivors Annuity Fund	-15	901	907	9,055	9,971	9,956
Department of Agriculture	55	-434	-91	942	453	508
Department of Commerce	-217	-19	5	130	328	111
Department of Defense	-207	-52	292	1,309	1,463	1,257
Department of Health, Education, and Welfare:						
Federal old-age and survivors insurance trust fund:						
Public debt securities	-541,720	2,175,159	2,216,641	37,162,264	39,879,143	39,337,423
Agency securities	....	....	....	555,000	555,000	555,000
Federal disability insurance trust fund	231,108	-36,822	391,359	8,194,588	7,926,658	8,157,766
Federal hospital insurance trust fund:						
Public debt securities	490,474	1,896,528	3,641,990	7,814,355	9,220,409	9,710,883
Agency securities	....	....	....	50,000	50,000	50,000
Federal supplementary medical insurance trust fund	-45,003	147,529	531,054	1,230,685	1,423,217	1,378,214
Other	....	....	100	182	182	182

TABLE IV--SCHEDULE D--INVESTMENTS OF GOVERNMENT ACCOUNTS IN FEDERAL SECURITIES--Continued (In thousands)

Classification	Net Purchases or Sales (-)			Securities Held as Investments Current Fiscal Year		
	This Month	Fiscal Year to Date		Beginning of		Close of This Month
		This Year	Prior Year	This Year	This Month	
Trust Funds--Continued						
Department of the Interior	$8,810	$7,879	$1,151	$2,066	$1,135	$9,945
Department of Labor:						
Unemployment trust fund	-785,463	-4,937,917	1,164,643	12,121,390	7,968,936	7,183,473
Other	....	....	....	31	31	31
Department of State:						
Foreign service retirement and disability fund	40,788	48,659	38,884	103,446	111,317	152,105
Other	....	10	-90	100	110	110
Department of Transportation:						
Airport and airway trust fund	142,932	1,058,309	877,839	877,839	1,793,216	1,936,148
Highway trust fund	455,693	1,936,620	2,049,152	7,599,203	9,080,130	9,535,823
Other	....	....	-13	10	10	10
Department of the Treasury	-7,246	-7,846	4,450	38,506	37,906	30,660
General Service Administration	-525	-135	607	3,088	3,478	2,953
Veterans Administration:						
Government life insurance fund	10,026	-47,145	-38,860	650,845	593,674	603,700
National service life insurance fund:						
Public debt securities	170,571	110,546	177,823	6,605,188	6,545,163	6,715,734
Agency securities	....	....	....	310,000	310,000	310,000
General Post Fund National Homes	-600	....	....	1,429	2,029	1,429
Independent agencies:						
Civil Service Commission:						
Civil service retirement and disability fund:						
Public debt securities	4,809,637	4,275,919	3,465,344	33,956,123	33,422,405	38,232,042
Agency securities	....	....	....	375,000	375,000	375,000
Employees health benefits fund	42,878	63,381	57,144	245,751	266,254	309,132
Employees life insurance fund	98,513	302,503	154,044	1,396,825	1,600,815	1,699,328
Retired employees health benefits fund	-2,937	-7,000	-7,300	29,081	25,018	22,081
Federal Deposit Insurance Corporation	-5,171	404,284	224,983	5,860,812	6,270,267	6,265,096
Railroad Retirement Board:						
Public debt securities	965,714	-290,345	-59,778	4,499,124	3,243,065	4,208,779
Agency securities	....	....	....	50,000	50,000	50,000
Total public debt securities	6,077,957	7,101,921	14,892,328	128,404,763	129,428,727	135,506,684
Total agency securities	....	....	....	1,340,000	1,340,000	1,340,000
Total trust funds	6,077,957	7,101,921	14,892,328	129,744,763	130,768,727	136,846,684
Off-budget Federal agencies:						
Postal Service:						
Public debt securities	-413,436	-71,541	-310,058	774,855	1,116,750	703,315
Agency securities	....	-18,800	17,775	22,775	3,975	3,975
Rural Telephone Bank	....	-3,629	4,140	11,109	7,480	7,480
Pension Benefit Guaranty Corporation	205	34,379	....	....	34,174	34,379
Total public debt securities	-413,231	-40,791	-305,918	785,964	1,158,404	745,174
Total agency securities	....	-18,800	17,775	22,775	3,975	3,975
Total Off-budget Federal agencies	-413,231	-59,591	-288,143	808,739	1,162,379	749,149
Grand Total	4,407,351	7,031,178	14,812,849	140,193,922	142,817,748	147,225,099
MEMORANDUM						
Investments in securities of privately owned Government-sponsored enterprises:						
Milk market orders assessment fund	....	....	200	200	200	200
Total	....	....	200	200	200	200

Note: Investments are in public debt securities unless otherwise noted.

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TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	Fiscal Year To Date	Comparable Period Prior F.Y.
RECEIPTS														
Individual income taxes	$10,806	$10,485	$13,947	$10,590	$10,832	$10,799	$15,487	$7,747	$4,134	$16,065	-$1,630	$13,123	122,386	118,95
Corporation income taxes	1,485	828	5,647	1,206	797	6,268	1,188	778	6,579	5,093	1,174	9,578	40,621	38,62
Social insurance taxes and contributions:														
Employment taxes and contributions	5,005	7,813	5,668	4,558	6,633	4,995	5,025	7,895	6,476	7,181	8,029	5,926	75,204	65,89
Unemployment insurance	418	1,363	62	221	762	89	245	732	21	557	2,209	92	6,771	6,83
Contributions for other insurance and retirement	358	368	389	363	353	356	402	352	373	388	350	413	4,466	4,05
Excise taxes	1,517	1,415	1,465	1,401	1,474	1,489	1,351	1,277	1,160	1,166	1,373	1,464	16,551	16,84
Estate and gift taxes	418	453	352	370	350	341	385	399	356	317	459	412	4,611	5,03
Customs	325	355	305	347	319	307	307	260	295	286	270	301	3,676	3,33
Miscellaneous	607	540	543	578	773	301	629	535	741	399	559	508	6,711	5,36
Total--receipts this year	20,939	23,620	28,377	19,633	22,292	24,946	25,020	19,975	20,134	31,451	12,793	31,817	280,997	
Total–receipts prior year	*18,210*	*21,365*	*24,843*	*17,642*	*20,206*	*21,990*	*23,475*	*20,224*	*16,819*	*29,660*	*19,240*	*31,259*		*264,93*
OUTLAYS														
Legislative Branch	67	68	42	88	58	60	46	59	61	41	52	84	726	62
The Judiciary	18	18	16	22	20	18	19	-1	53	44	37	21	284	20
Executive Office of the President	7	6	7	5	7	6	7	5	4	20	9	12	93	6
Funds appropriated to the President:														
International security assistance	-313	-136	222	59	102	206	-150	223	35	216	168	362	994	1,2
International development assistance	137	75	71	141	165	216	94	137	170	75	161	120	1,557	1,4
Other	67	79	59	77	100	73	85	60	65	69	60	220	1,021	7
Department of Agriculture:														
Foreign assistance, special export programs and Commodity Credit Corporation	-118	-65	73	456	162	136	148	219	151	182	101	75	1,519	1,6
Other	502	411	543	307	327	769	1,397	549	678	847	789	1,087	8,206	8,1
Department of Commerce	127	128	111	149	127	133	155	123	141	128	109	151	1,583	1,4
Department of Defense:														
Military:														
Department of the Army	1,663	1,994	1,866	1,992	1,869	1,920	1,832	1,749	1,815	1,536	1,913	1,768	21,918	21,3
Department of the Navy	2,086	2,187	2,124	2,277	2,258	2,315	2,296	2,185	2,369	2,326	2,497	2,472	27,393	23,9
Department of Air Force	1,783	2,126	1,982	2,189	2,200	2,137	2,108	2,103	2,084	2,162	2,154	2,017	25,042	23,9
Defense agencies	781	747	766	781	1,055	879	984	999	1,024	960	1,054	950	10,980	8,2
Civil defense	1	8	7	6	7	6	10	8	8	5	9	8	86	
Allowance undistributed	......	......	....	....	....	......	....	......	....	....	......	......	......	....
Total Military	6,313	7,062	6,745	7,246	7,389	7,258	7,231	7,044	7,300	6,989	7,627	7,216	85,420	77,6
Civil	125	177	211	198	203	200	153	129	137	138	156	224	2,051	1,6
Department of Health, Education, and Welfare:														
Social and Rehabilitation Service	1,114	1,108	1,149	1,101	1,133	1,299	1,243	1,225	1,006	676	1,728	1,698	14,479	13,2
Federal old-age and survivors insurance trust fund	4,435	4,505	4,579	4,598	4,581	4,673	4,628	4,717	4,739	4,732	4,779	5,713	56,678	49,4
Federal disability insurance trust fund	617	623	610	651	658	679	662	669	702	675	712	724	7,983	6,3
Federal hospital insurance trudt fund	793	823	765	860	832	872	908	901	976	1,004	953	924	10,610	8,0
Federal supplementary medical insurance trust fund	309	313	292	339	349	332	385	344	368	403	347	387	4,169	3,2
Other	1,422	1,436	1,450	1,491	1,579	1,582	1,963	1,361	1,937	2,640	1,161	471	18,492	13,2

TABLE V--COMPARATIVE STATEMENT OF BUDGET RECEIPTS AND OUTLAYS BY MONTHS OF CURRENT FISCAL YEAR--Continued

(Figures are rounded in millions of dollars and may not add to totals)

Classification	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	March	April	May	June	Fiscal Year To Date	Comparable Period Prior F.Y.
OUTLAYS--Continued														
Department of Housing and Urban Development	$688	$760	$681	$573	$606	$621	$964	$372	$794	$501	$514	$414	$7,488	$4,786
Department of the Interior	240	231	242	180	176	133	265	75	216	70	163	155	2,162	1,793
Department of Justice	146	202	159	173	150	152	205	175	167	185	172	180	2,067	1,797
Department of Labor:														
Unemployment trust fund	597	593	540	556	561	933	1,293	1,456	1,738	1,727	1,610	1,607	13,211	6,149
Other	355	256	196	207	258	217	343	275	475	482	457	917	4,437	2,818
Department of State	166	67	74	66	67	62	81	74	48	51	57	30	844	735
Department of Transportation:														
Highway trust fund	230	413	469	538	561	481	399	284	385	359	334	285	4,738	4,510
Other	277	357	333	322	406	353	405	355	353	361	449	536	4,509	3,595
Department of The Treasury:														
Interest on the public debt	2,687	2,657	2,715	2,714	2,662	2,794	2,810	2,621	2,739	2,740	2,761	2,765	32,665	29,319
Interest on refunds, etc.	19	20	18	19	41	18	20	12	20	15	23	18	244	226
General revenue sharing	1,538	(**)	7	1,533	4	(**)	1,528	(**)	(**)	1,524	(**)	5	6,138	6,106
Other	23	-125	168	-88	145	-135	-114	105	162	180	18	1,788	2,131	342
Energy Research and Development Administration	121	235	242	272	300	259	235	308	293	308	244	382	3,198	2,362
Environmental Protection Agency	119	107	139	165	200	205	205	201	271	325	258	336	2,530	2,032
General Services Administration	-296	-10	-24	-170	-2	96	-122	36	69	-133	-25	-43	-624	-276
National Aeronautics and Space Administration	216	247	267	281	297	288	298	283	315	287	301	185	3,267	3,252
Veterans Administration:														
Compensation, pension, and benefit programs	666	621	615	612	621	622	653	619	628	639	639	646	7,581	6,633
Government life insurance fund	9	5	6	7	5	7	6	21	6	5	5	5	86	78
National service life insurance fund	59	50	51	59	44	56	61	191	46	40	39	36	731	623
Other	522	557	474	539	669	947	677	750	722	821	779	721	8,178	6,003
Independent agencies:														
Civil Service Commission	489	528	562	597	671	577	553	633	581	639	671	536	7,036	5,692
Postal Service	388	1,163	.....	......	.....	281	.....	.....	.....	......	.....	46	1,877	1,698
Small Business Administration	31	205	12	55	23	62	23	30	53	35	18	70	618	753
Tennessee Valley Authority	27	33	70	46	70	122	59	21	75	69	69	106	767	401
Other	471	441	825	694	580	854	461	308	543	543	553	683	6,957	5,119
Undistributed offsetting receipts:														
Federal employer contributions to retirement fund	-271	-286	-309	-269	-264	-278	-619	-285	-232	-327	-300	-541	-3,980	-3,319
Interest credited to certain accounts	-697	-492	-717	-692	-527	-749	-697	-427	-693	-691	-530	-765	-7,690	-6,578
Rents and Royalties on Outer Continental Shelf Lands	-30	-59	-48	-317	-1,148	-49	-34	-58	-312	-35	-44	-295	-2,428	-6,748
Allowances Undistributed	.....	.....	.....	......	......	.....	.....	.....	.....	......	.....	......	......	....
Total outlays--this year	24,411	25,408	24,712	26,460	24,965	27,442	28,934	26,200	27,986	29,601	28,186	30,296	324,601	
Total Outlays–prior year	*22,717*	*22,110*	*20,670*	*23,105*	*22,079*	*19,681*	*23,664*	*21,039*	*22,902*	*22,219*	*24,034*	*24,172*		*268,392*
Surplus (+) or deficit (-) this year	-3,472	-1,787	+3,666	-6,827	-2,673	-2,496	-3,914	-6,225	-7,852	+1,850	-15,394	+1,521	-43,604	
Surplus (+) or deficit (-) prior year	*-4,506*	*-745*	*+4,173*	*-5,463*	*-1,873*	*+2,309*	*-189*	*-815*	*-6,083*	*+7,441*	*-4,794*	*+7,087*		*-3,460*

See footnotes on page 3.

TABLE VI--TRUST FUND IMPACT ON BUDGET RESULTS AND INVESTMENT HOLDINGS (In millions)

Classification	Current Month			Fiscal Year to Date			Securities Held as Investments Current Fiscal Year		
	Receipts	Outlays	Excess of receipts or out-lays(-)	Receipts	Outlays	Excess of receipts or out-lays(-)	Beginning of: This year	Beginning of: This month	Close of this month
Trust receipts, outlays, and investments held:									
Federal old-age and survivors insurance	$3,958	$3,650	$309	$55,207	$52,143	$3,065	$37,717	$40,434	$39,892
Federal disability insurance	717	450	267	7,250	7,284	-34	8,195	7,927	8,158
Federal hospital insurance	1,112	610	502	11,258	9,305	1,952	7,864	9,270	9,761
Federal supplementary medical insurance	168	213	-45	1,901	1,737	166	1,231	1,423	1,378
Federal employees retirement	245	-4,602	4,847	2,565	-1,779	4,344	34,435	33,909	38,759
Federal employees life and health benefits	....	-153	153	....	-361	361	1,672	1,892	2,031
Federal Deposit Insurance Corp	....	3	-3	....	-408	408	5,861	6,270	6,265
Airport and airway	86	-5	91	962	483	479	878	1,793	1,936
General Revenue Sharing	....	5	-5	6,205	6,138	67	....	....	....
Highway	507	7	500	6,188	4,257	1,931	7,599	9,080	9,536
Military assistance advances	....	23	-23	....	-878	878	....	....	....
Railroad retirement	139	189	-49	1,489	2,805	-1,316	4,549	3,293	4,259
Unemployment	92	678	-586	6,771	11,788	-5,017	12,121	7,969	7,184
Veterans life insurance	....	-242	242	....	-99	99	7,567	7,452	7,631
All other trust	2	323	-321	40	16	24	56	57	57
Trust funds receipts and outlays on the basis of Table III and investments held from Table IV--D	7,026	1,148	5,878	99,836	92,428	7,408	129,745	130,769	136,847
Interfund receipts offset against trust fund outlays	8,362	8,362	....	19,726	19,726	....			
Total trust fund receipts and outlays	15,388	9,510	5,878	119,562	112,154	7,408			
Federal fund receipts and outlays on the basis of Table III	24,791	29,148	-4,357	187,366	238,377	-51,012			
Interfund receipts offset against Federal fund outlays	11	11	....	130	130	....			
Total Federal fund receipts and outlays	24,802	29,159	-4,357	187,496	238,507	-51,012			
Total interfund receipts and outlays	-8,373	-8,373	....	-26,061	-26,061	....			
Net budget receipts and outlays	31,817	30,296	1,521	280,997	324,601	-43,604			

See footnotes on page 3.

Note: Interfund receipts and outlays are transactions between Federal funds and trust funds, such as, Federal payments and contributions, Federal employer contributions, and interest and profits on investments in Federal securities. They have no net effect on overall budget receipts and outlays since the receipt side of such transactions is offset against budget outlays. In this table, interfund receipts are shown as an adjustment to arrive at total receipts and outlays of trust funds and Federal funds respectively. Included in total interfund receipts and outlays are $6,205 million in federal funds transferred to trust funds for general revenue sharing.

TABLE VII--SUMMARY OF RECEIPTS BY SOURCE AND OUTLAYS BY FUNCTION (In thousands) 31

Source	Total Budget		
	This Month	Fiscal Year To Date	Comparable Period Prior Fiscal Year
NET RECEIPTS			
dividual income taxes	$13,123,107	$122,385,980	$118,951,631
orporation income taxes	9,577,550	40,621,179	38,619,654
ocial insurance taxes and contributions:			
Employment taxes and contributions	5,926,474	75,204,416	65,892,164
Unemployment insurance	92,123	6,770,706	6,836,545
Contributions for other insurance and retirement	412,517	4,465,868	4,051,342
xcise taxes	1,463,895	16,550,686	16,843,668
state and gift taxes	411,765	4,611,125	5,034,640
ustoms	301,395	3,675,532	3,334,138
iscellaneous	507,837	6,711,349	5,368,613
Total	31,816,664	280,996,840	264,932,400
OUTLAYS			
ational defense	7,854,311	88,238,343	78,568,540
ternational affairs and finance	557,031	4,198,391	3,593,005
eneral science, space, and technology	256,456	4,153,842	4,154,043
atural resources, environment, and energy	787,840	7,921,034	6,390,241
griculture	178,844	1,991,066	2,230,029
ommerce and transportation	1,288,859	15,565,537	13,100,014
ommunity and regional development	452,558	4,410,026	4,910,094
ducation, manpower, and social services	1,684,441	15,110,280	11,600,144
ealth	2,594,133	27,444,483	22,073,035
come security	11,564,166	108,888,538	84,431,067
eterans benefits and services	1,412,451	16,595,145	13,386,006
aw enforcement and justice	237,629	2,759,043	2,462,102
eneral government	521,010	3,704,602	3,327,174
evenue sharing and general purpose fiscal assistance	-14,400	6,699,984	6,746,029
terest	2,521,100	31,018,819	28,072,121
ndistributed offsetting receipts	-1,600,857	-14,098,173	-16,651,661
Total	30,295,572	324,600,960	268,391,983

GPO 894-646

For sale by the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402
Subscription price $62.20 per year (domestic), $15.55 per year additional (foreign mailing), includes all issues of daily Treasury statements, the Monthly Statement of the Public Debt of the United States and the Monthly Treasury Statement of Receipts and Outlays of the U.S. Government. No single copies are sold.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE August 29, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.1 billion of 13-week Treasury bills and for $3.2 billion of 26-week Treasury bills, both series to be issued on September 4, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 4, 1975			26-week bills maturing March 4, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.407 a/	6.302%	6.51%	96.552 b/	6.820%	7.18%
Low	98.381	6.405%	6.62%	96.520	6.884%	7.25%
Average	98.387	6.381%	6.59%	96.529	6.866%	7.23%

a/ Excepting 1 tender of $1,295,000
b/ Excepting 1 tender of $1,000,000

Tenders at the low price for the 13-week bills were allotted 77%.
Tenders at the low price for the 26-week bills were allotted 71%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 55,945,000	$ 39,945,000	$ 81,180,000	$ 26,180,000
New York	3,876,690,000	2,069,555,000	4,909,245,000	2,130,595,000
Philadelphia	63,335,000	46,335,000	61,875,000	16,875,000
Cleveland	129,960,000	89,960,000	233,940,000	172,940,000
Richmond	94,690,000	82,940,000	98,915,000	72,335,000
Atlanta	37,395,000	36,515,000	67,325,000	54,325,000
Chicago	326,430,000	178,055,000	547,590,000	181,880,000
St. Louis	52,970,000	38,940,000	63,360,000	39,360,000
Minneapolis	44,470,000	29,470,000	51,395,000	27,395,000
Kansas City	46,230,000	44,230,000	43,650,000	35,035,000
Dallas	32,175,000	27,175,000	33,880,000	19,380,000
San Francisco	604,090,000	417,940,000	680,785,000	424,545,000
TOTALS	$5,364,380,000	$3,101,060,000 c/	$6,873,140,000	$3,200,845,000 d/

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c/ Includes $518,160,000 noncompetitive tenders from the public.
d/ Includes $293,260,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

July 31, 1975

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH

(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5003	4999	4	.08
Series F and G-1941 thru 1952	29521	29502	19	.06
Series J and K-1952 thru 1957	[illegible]	[illegible]	5	.13
UNMATURED				
Series E 3/:				
1941	1945	1769	176	9.05
1942	8585	7789	796	9.27
1943	13800	12541	1258	9.12
1944	16129	14577	1552	9.62
1945	12719	11353	1366	10.74
1946	5813	5049	764	13.14
1947	5555	4700	855	15.39
1948	5767	4805	962	16.68
1949	5732	4701	1031	17.99
1950	5038	4080	958	19.02
1951	4352	[illegible]	829	19.05
1952	4571	3678	893	19.54
1953	5246	[illegible]	1099	20.95
1954	5365	4183	1182	22.03
1955	5601	4322	1279	22.84
1956	5408	4149	1259	23.28
1957	5105	[illegible]	1230	24.09
1958	5005	3711	1294	25.85
1959	4701	3454	1247	26.53
1960	4738	3395	1343	28.35
1961	4845	3363	1482	30.59
1962	4726	3207	1519	32.14
1963	5334	3447	1887	35.38
1964	5197	3377	1821	35.04
1965	5090	3284	1806	35.18
1966	5521	3443	2077	37.62
1967	5476	[illegible]	2096	38.27
1968	5186	3139	2048	39.49
1969	4881	2860	2021	41.41
1970	5115	2790	2326	45.47
1971	5905	2851	3054	51.72
1972	6519	2782	3737	57.32
1973	6452	2535	3977	61.64
1974	6522	1930	4591	70.39
1975	2388	221	2167	90.75
Unclassified	1038	980	58	05.59
Total Series E	211396	153395	58040	27.46
Series H (1952 thru May, 1959) 3/	5484	4204	1282	23.38
H (June, 1959 thru 1974)	10336	3763	6568	63.54
Total Series H	15820	7967	7850	49.62
Total Series E and H	227196	16136.2	65890	29.00
All Series — Total matured	38274	38250	28	.07
All Series — Total unmatured	227196	161362	65890	29.00
All Series — Grand Total	265470	199612	65918	24.83

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 4:00 P.M. September 2, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,100,000,000 , or thereabouts, to be issued September 11, 1975, as follows:

91-day bills (to maturity date) in the amount of $2,900,000,000, or thereabouts, representing an additional amount of bills dated June 12, 1975, and to mature December 11, 1975 (CUSIP No. 912793 YB6), originally issued in the amount of $2,591,450,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,200,000,000, or thereabouts, to be dated September 11, 1975, and to mature March 11, 1976 (CUSIP No. 912793 YX8).

The bills will be issued for cash and in exchange for Treasury bills maturing September 11, 1975, outstanding in the amount of $5,107,490,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,873,815,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, September 8, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

(OVER)

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securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on September 11, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 11, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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For Release on Delivery at
11:00 a.m., EDT, Tuesday,
September 2, 1975

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY OF THE UNITED STATES
BEFORE THE 1975 ANNUAL MEETINGS OF THE
BOARDS OF GOVERNORS OF THE
WORLD BANK GROUP AND THE INTERNATIONAL MONETARY FUND
AT THE SHERATON PARK HOTEL
WASHINGTON, D.C., SEPTEMBER 2, 1975

Mr. Chairmen, Mr. McNamara, Mr. Witteveen, Fellow Governors and Ladies and Gentlemen:

It is a privilege to address this distinguished audience once again and to share with you today the views of the United States on the major economic issues facing the world.

In general, the outlook for the international economy is now more hopeful than it was earlier this year. Most of the major industrial countries have adopted vigorous expansionary policies. Several nations, including the United States, have begun the process of recovery. Despite serious strains, the level of international cooperation remains undiminished. Few countries have resorted to policies which might yield domestic gains at the expense of their neighbors. And the more affluent nations are strengthening their efforts to assist those who are less fortunate.

Yet there can be no doubt that the pattern of progress is highly uneven. In a number of countries, the downward economic spiral continues still, becoming more prolonged and severe than once expected. The hardships created by an inflation of unparalleled strength, brutally sharp and unanticipated increases in the cost of energy, and a harsh recession -- all of these remain a painful, living reality in too many parts of the world. Thus, the urgent task still before us is to work together in restoring a broadly based, forward momentum to the world economy which will provide the foundation for sustained, non-inflationary growth in every nation.

As we press forward, it is essential that we maintain our bearings:

-- We must carefully support and encourage the forces of recovery without yielding to the temptations of excessive stimulation;

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-- We must persevere in our efforts to control inflation without disrupting the process of recovery. A durable recovery will be possible only if we master the causes of inflation;

-- We must reach a better accommodation on the problems of energy while continuing to support the oil-exporting nations in their quest for economic advancement;

-- We must encourage economic development among poorer nations;

-- And we must ensure that we have a smoothly functioning monetary system.

Let me turn now to a more detailed consideration of each of these issues.

Prospects for Economic Growth

The United States is acutely aware that its own economic policies bear heavily not only upon the livelihoods of our own citizens but upon those in other nations as well. While our economy is no longer as predominant in the world economy as it once was, our gross national product still amounts to over one-quarter of the world total and we represent the world's largest import market. Therefore, the single most important contribution we can make to the health of the world economy is to achieve durable, non-inflationary growth within our own borders.

Fortunately, there is now abundant evidence that an economic recovery is well underway in the United States. My government is determined to sustain this recovery while also bringing inflation under control and adopting those policy measures necessary for lasting growth. We need not, and we should not, seek to choose among these objectives. We have learned from hard experience that all of our economic goals must be pursued simultaneously. We will not provide excessive stimulation that would only intensify inflationary pressures, preempt the capital that is needed to sustain the recovery, and run the risk of setting off another vicious cycle of inflation and recession. Nor will we allow our concern with inflation to prevent us from actively supporting the natural forces of recovery or taking additional expansionary measures if they should be needed. We are not ready to acquiesce in either stagnation or inflation as a way of life.

Some have suggested that in order to help other nations out of recession, the United States should embark upon much more stimulative fiscal and monetary policies. We respectfully disagree. Too many of our current domestic troubles are rooted in such excesses in the past.

Since 1965, the average U.S. Federal budget deficit and the average annual growth in our money supply have been about three times as large as in the preceding decade. It is no accident that during the earlier period our country enjoyed reasonable price stability while in recent years we have had increasing difficulty in containing inflation. And inflationary expectations are now so deeply embedded in our society that they will not disappear quickly. The financial sins of a decade cannot be forgiven by a day of penance. Our policies in the United States must be designed to attack the causes of inflation, not their results. In the long run, that will bring the most lasting benefits to us all.

While the revival of the United States economy will help to bolster both the economic prospects and the confidence of other nations, it would be unrealistic to expect that any single country could lead the rest of the world out of recession. Expanded world trade should not be regarded as the source but as the product of recovery. Indeed, let us recognize that the process of solving our economic troubles must begin at home with each country acting on its own to make the tough decisions that are essential for sound, durable growth. As that process spreads from one nation to the next, it will become mutually reinforcing and all nations will realize greater benefits. In addition to the expansionary efforts undertaken by the United States earlier this year, several other major industrialized nations have now adopted more stimulative policies. Taken together, these actions should provide a forward thrust to the world economy.

As our policies of expansion gradually take effect, we ask ourselves: Have we done enough? Should we do more to speed up the effects? To the extent that some of our people believe we are not moving rapidly enough to create jobs and to restore our standard of living, there may be adverse social and political pressures. Yet it is equally clear that if we overheat our economies, we will re-ignite the fires of inflation and create another recession with more serious economic and social consequences. Our highest responsibility as finance ministers, I would respectfully suggest, is to pursue sound, balanced policies which promote economic growth without encouraging renewed inflation. That often proves to be politically unpopular in the short run, but in the long run it will do far more to create jobs and serve the best interests of our people than the palliatives so often urged upon us. History is littered with the wreckage of governments that have refused to face up to the ravages of inflation, and none of us can afford, either through short-sightedness or lack of determination, to yield to these temptations.

Beyond the problems of determining fiscal and monetary policies, nations must also deal with the difficulties created by high oil prices.

Almost two years after the first oil price shock, it is evident that we are only beginning to understand the full impact as well as the threat to our future which is posed by escalating oil prices. It is now

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obvious that the most serious consequences are not financial but political and economic. While we must and will continue to devote special attention to the problems of the financial system in adjusting to new realities, we can be confident of our capacity to manage such problems. But the economic consequences of these oil policies -- the higher costs that have come not just in energy but in many other vital commodities such as food, the structural adjustments that have been necessary, the loss of jobs, and the obstacles to economic growth -- cannot be so easily managed.

In our view, current price levels for international oil can be justified on neither economic nor financial grounds. The present pricing policies of the OPEC countries mean that cheap energy remains in the ground and that the prosperity of all nations is diminished. Moreover, high oil prices lie at the root of much of the world's recent inflation and the recession that followed. Yet now the possibility of another increase in oil prices looms on the horizon. Let there be no misunderstanding about the result of another major price increase: it would seriously jeopardize the balance upon which global economic recovery now depends.

We urge the OPEC nations to recognize, as others have done in the past, that the prosperity of each nation is deeply intertwined with the prosperity of all nations.

Another price increase seems especially inappropriate in light of our efforts to address the legitimate problems facing the oil exporting nations as well as other developing countries. We have taken significant steps to bring about a dialogue between producers and consumers. We have proposed the establishment of commissions to deal with critical problems in the areas of energy, raw materials, development and related financial questions. Special bilateral programs have been set up with the oil exporting countries and considerable progress has been recorded. All of these measures reflect our sincere desire to work cooperatively with the oil exporters as they strive for higher standards of living and more diversified economies. In turn, we urge that they work cooperatively with us and with other nations to enhance the prospects for a world economic recovery.

Let me add that the substantial financing requirements of industrial countries in this period of OPEC surpluses dictate that we continue to keep the adequacy of international financing arrangements under review. I am confident that in the future, as in the past two years, private financing mechanisms will continue to play the dominant role in channeling OPEC funds to various borrowers. At the same time, we welcome the prospective establishment of the Financial Support Fund agreed upon among the member countries of the Organization for Economic Cooperation and Development. That fund will supplement IMF resources and provide needed insurance in an uncertain period. Particularly important in present circumstances is the assurance thereby provided that, if needed, financing will be available to facilitate the pursuit of sound expansionary policies by the industrial countries.

Problems of the Developing Countries

Those who have suffered the most from higher oil prices and the deterioration in world economic conditions have been those who least deserve to suffer and are least able to protect themselves -- the poor and the needy of the developing countries. In the industrialized nations, the problems of inflation, exorbitant energy prices and the resulting recession have often meant hardships, but they have not brought large numbers of people to the edge of desperation. Hopes for the future may have been dampened but they have not been crushed. Sadly, the same cannot be said of the less fortunate nations of the world, where hunger and illness are the immediate result of reduced incomes. In these circumstances, the United States and other industrial nations are determined to make special efforts to assist developing nations in their efforts to sustain the momentum of their economic and social progress. We do so from a sense of compassion, and out of a realization that the prosperity of the developing world also serves to support our own continued prosperity.

The World Bank and the International Monetary Fund have already proven that they are highly effective instruments for working with developing countries in devising the most promising plans for economic growth. But we believe that more must now be done within the framework of those institutions to assist the developing countries.

Yesterday, in a speech read on his behalf at the United Nations, Secretary Kissinger set forth a range of proposals that he and I, under the leadership of President Ford, have developed together. Three of those proposals are of particular importance for the Fund and the Bank.

First, the United States proposes as a matter of high priority that a development security facility be created in the IMF to meet the needs of those developing nations suffering from sharp fluctuations in export earnings. It would replace the existing compensatory finance facility. We fully recognize that excessive fluctuations in export earnings can disrupt development efforts and that many producing nations lack sufficient financial reserves to cushion themselves against sharp drops in their earnings. We believe that compensatory facilities to finance shortfalls in export earnings would be both more effective and more efficient in reducing such disruptions than commodity pricing arrangements. Shortly after the completion of these meetings, we will submit detailed proposals to the Executive Board of the IMF calling for the creation of the facility. They will also call for broadening the purposes of the proposed Trust Fund, enabling it to provide grants to the poorest countries experiencing export shortfalls and allowing some use of the Trust Fund resources to supplement the proposed facility.

Secondly, we pledge our support to a major expansion of the International Finance Corporation, permitting that organization to serve as a more effective catalyst for growth of the private sector in developing countries. We agree with Mr. McNamara that the role of the IFC in mobilizing additional private investment is now more important than ever. There can be little doubt that much of the increase in living standards within developing countries must come from increased private sector production of goods and services. Arrangements should be made in the next few months to give the International Finance Corporation better tools to assist the domestic private sector and to make the IFC a full partner in the Bank Group. Moreover, the IFC should play an active part in bringing together foreign and domestic investors. It should act aggressively to arrange financing for mineral production in developing countries where, as an impartial international party, it can help to smooth relationships between international companies with technology and markets and national authorities who understandably wish to strike the best bargain for their countries. The IFC should also develop imaginative financial arrangements, including a new investment trust, so that equity shares in joint ventures can gradually be purchased by private individuals and firms in developing countries. All of these activities will complement the ongoing work of the World Bank, which must continue to assist in financing related infrastructure such as ports and roads and will, we expect, give higher priority to the most important aspect of identifying obstacles to private savings and domestic private investment in developing countries.

Thirdly, the United States once again urges that agreement be promptly reached on the establishment of a Trust Fund managed by the IMF in order to provide highly concessional balance of payments financing for the poorest developing countries. Nearly a year has passed since my government first proposed the Trust Fund and urged that a portion of the IMF gold be sold to help finance this worthy cause. We are pleased that there has been increasing recognition that the Trust Fund concept represents the most effective means of providing fast-disbursing financial support. This is one way we can move ahead immediately to respond to the severe financing needs faced by the developing countries; we can agree now to see a portion of IMF gold used without waiting for time-consuming amendments of the Articles. Even as we have delayed in establishing this fund, the need for it has grown. Let us resolve to act promptly.

In addition to these major initiatives, other steps should be taken so that the Bank and the Fund can more adequately meet today's needs. As the oil facility of the IMF phases out this year, we should take action to assure the immediate useability of all currencies held by the IMF. We also need to direct early attention to a review of the tranche policies of the Fund and to consider whether changes should be introduced in these policies in order to provide increased access to the Fund's regular drawing facilities. This would enable the Fund to play the expanded and more active role required of it in today's world.

The World Bank is by far the largest and most influential development lending institution and as such has a major role to play in assisting developing nations achieve their development goals. It is of the greatest importance that the quality of this work and the soundness of its financial position be sustained. Since the lending program now being implemented by the Bank carries with it demanding assumptions about the Bank's long term ability to borrow funds, it is important that the management and executive directors of the Bank work together to assess carefully the role the Bank should play in the development process in the next decade and to examine the implications of this for the capital of the Bank and the nature of its programs. With capital an increasingly scarce resource, critical for the growth of the developed as well as the developing countries, it is essential that we have a clear understanding of the priorities which should govern the lending of an institution whose borrowing now approaches $5 billion per year. The U.S. will continue to provide strong support to the Bank, and we will assist in helping it maintain a sound financial position.

As I said last year, we support a substantial increase in World Bank share ownership and voting power for countries newly able to make a major contribution to development through the Bank Group. Such an increase should be determined country-by-country and increases in capital should be accompanied by commensurate contributions to the International Development Association to help the poorest countries as well as the middle-level countries.

I stress the importance of IDA contributions because of the association's central role in meeting the needs of the poorest and least developed countries. They have the least ability to deal with the impact of economic events on their development and only a combined effort of present members and nations newly able to contribute will enable IDA to assist those countries adequately in the future. Mr. McNamara has announced that negotiations for the next replenishment of IDA will commence in November. A satisfactory agreement on extending IDA's resources will be possible only with the full collaboration of all countries in a position to contribute.

Beyond these measures, developed nations must also support the long-standing development efforts such as the regional development banks and our bilateral assistance programs. These programs have shown their effectiveness over the years and deserve to be strongly supported. It is also important for all countries to open their capital markets to the borrowing of the Bank and of the developing countries themselves.

In setting forth these proposals today and reviewing the activities of the World Bank and the International Monetary Fund, I would be less than candid if I did not add that in and of themselves, the measures I have outlined will not be sufficient to ensure economic development. We must not mislead ourselves on this matter. Far more important to the developing nations than the financial assistance that industrialized countries may provide to them is the restoration of stable, non-inflationary growth around the world. And, in the long run, the policies and efforts of the developing countries themselves will be the most decisive. History has shown that no matter how generous others may be, those who have been helped the most are those who have helped themselves.

While the developed nations must provide financing and open up their markets, the effectiveness of such assistance depends heavily upon the ability of the developing countries themselves to assure the best use of all resources, domestic as well as foreign. Development assistance should be thought of not as an international welfare program to redistribute the world's wealth but as an important element of an international investment program to increase the rate of economic growth in developing nations and to provide higher living standards for people of every nation. The effectiveness of international investment, private and public, depends fundamentally on the policies and efforts of each developing country.

I am particularly struck by the impressive economic and social progress made by countries which participate fully in the world market, which rely on market forces to provide incentives for efficient use of resources, and which maintain a favorable climate for foreign and domestic private investment.

In short, the process of economic development requires the cooperation and full efforts of each of us in pursuing economic policies to maximize production, income and trade for all countries.

International Monetary Arrangements

Let me turn now to a discussion of international monetary issues.

We have achieved a significant breakthrough in our meetings this week in resolving many of the most difficult international monetary issues before us and in paving the way for a final comprehensive agreement in January. The technically complex -- and politically sensitive -- question of arranging a major quota increase and allocating national shares is substantially resolved. We have also succeeded in settling the thorny issues involved in phasing gold out of the international monetary system. Both of these agreements required concessions by many, but the result provides concrete evidence of the continuing spirit of cooperation and good will on which these institutions are founded. Once again we have demonstrated that through patient negotiation it is possible to arrive at an accommodation of conflicting views which is acceptable to each of us and beneficial to all of us.

Let us now proceed to the final component of our negotiations -- an agreement on amendment of the exchange rate provisions of the Articles -- which will enable us to put into practice the accords reached here this week. Amended provisions are needed which give legal recognition to the realities of today's world and reflect the evolution of the system that has occurred in recent years.

Two and a half years ago the par value system gave way to a voluntary system of exchange rate practices under which some countries float independently, some float jointly and some use pegged rates. We are fortunate that this system was actually in place before the oil crisis hit, and its flexibility has served us well in difficult circumstances.

Let those who see stability in par values review again the chaos and disorder of the closing years of the Bretton Woods system. Think back to those days of market closures which disrupted trade and commerce. Recall that the only sure winners were the speculators, who could be assured that with time and persistence they would inevitably carry the day. Remember, too, the hurried international conferences to try to patch together some solution so that markets might open again. Think back to the duration and difficulty of the Smithsonian negotiations and the tensions associated with those negotiations. Those were the days when our political cohesion was threatened by monetary difficulties.

The basic logic of the par value system implies a world which does not now exist -- one in which prices are reasonably stable, and in which current account balances adjust to capital flows that are relatively slow to change. But the world has changed and we need a system that is adaptable and is appropriate for the world as it is today, not as it once was or as we might like it to be.

Today we have a system which is flexible and resilient. It has enabled exchange markets to remain open and viable in the face of pressures that would have previously been overwhelming. Even the massive accumulations by the OPEC countries and occasional significant fluctuations in particular exchange rates have not unsettled the system. It has been possible to relax or eliminate many of the extensive restrictions on capital movements and to find viable alternatives to restrictive current account measures. The large payments deficits of today have provoked fewer import restrictions by major countries than did the comparatively minor payments difficulties of earlier years. Although rates of inflation have varied enormously, from 6 percent in some countries to 25 percent in others, the flexibility of our system has allowed exchange rates to move so as to reflect these divergences in costs and prices. Attempts to maintain fixed exchange rates under these circumstances would have quickly and inevitably collapsed under the strain.

Some contend that the abandonment of par values is one of the causes of the tidal wave of inflation which has swept the world and that the voluntary system fails to provide the discipline needed to induce countries to restrain their inflation. I cannot agree. It was inflation which made floating necessary. Of course, floating does not prevent home-grown inflation or protect a country from drastic real changes from abroad such as the sudden jump in oil prices. It can, however, shield a country from imported inflation that results from overly expansive fiscal and monetary policies abroad. As for floating as an instrument of discipline, I believe that when a depreciating exchange rate in a free market directly increases the costs of imported goods, that has more meaning to the general public and political leaders than the level of central bank reserves or official borrowing.

U.S. policy is to have our own exchange rate determined essentially by market forces, and not by arbitrary official actions. We do not propose to object if foreign countries elect to establish fixed exchange rates among themselves -- the essence of a voluntary system is to permit a free choice -- so long as our own desire for essential freedom of the dollar exchange rate is respected. We are prepared to intervene whenever necessary to maintain orderly exchange market conditions. However, sizeable movements in exchange rates over a period of several months are not necessarily indicators of disorderly markets -- and the fact that such movements are sometimes reversed does not demonstrate that it would have been possible for governments to prevent the initial movement in rates, nor desirable to try.

When the pressures of inflation subside and economies recover, when periods of calm between unexpected shocks become longer, then the behavior of exchange rates will become more stable. The greater exchange stability we all would like to see can only be achieved through sound economic policies which result in greater domestic stability in all of our economies.

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We believe strongly that countries must be free to choose their own exchange rate system and that all countries, whatever choice they make, must be subject to the same agreed-upon principles of international behavior. The right to float must be clear and unencumbered. In view of the great diversity in political systems, institutional arrangements, size of national economies, and degree of dependence on foreign trade and investment, our present world requires an open mind about the future.

I do not pretend to have the wisdom or the clairvoyance to predict the precise exchange arrangements the world may desire or require far in the future. Experience with the present Articles provides clear evidence of the difficulty of specifying in rigid detail an exchange rate system that can be expected to last forever. We must deal with the world as it is today, and that now requires a system that can easily adapt to rapid change. I know this can be done. Our agreements this week on gold and quotas show that we can find answers to difficult problems -- and that a mutually acceptable accommodation on exchange rates can be achieved. The United States will approach the search for a resolution of this problem with imagination and an appreciation of others' views. We know that others will do the same.

Conclusion

Ladies and Gentlemen, it is apparent that the agenda for the future is formidable:

-- To achieve lasting, non-inflationary growth;

-- To reach an accommodation on energy;

-- To encourage economic development; and,

-- To maintain a monetary system adapted to today's needs.

Each of these demands our full attention. The agreements we have reached this week demonstrate that through cooperation and perseverance, we can succeed. It is in that spirit that we must continue to move forward. I pledge to you that the United States will remain a reliable partner in this journey.

Thank you.

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE COMMITTEE ON
BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE
REGARDING LOCKHEED AIRCRAFT CORPORATION'S FOREIGN
SALES ACTIVITIES AND THEIR IMPLICATIONS ON THE
EMERGENCY LOAN GUARANTEE PROGRAM
AUGUST 25, 1975, 10:00 A.M.

Mr. Chairman, my testimony concerns the Emergency Loan Guarantee program, and in particular the recent disclosures of secret payments made by Lockheed Aircraft Corporation, the sole borrower under the program, to officials of foreign governments.

Let there be no misunderstanding: the Emergency Loan Guarantee Board does not, and will not, condone illegal or unethical activities by American business, here or abroad. The Board condemns such actions in the strongest terms and is deeply concerned about the possible improper use of Lockheed's corporate funds and its impact on the guarantee program. We are disturbed that Lockheed's apparent long-standing practice of resorting to bribery to sell its products in foreign markets has escaped detection by the Board, and others monitoring the company's activities. We are distressed that Lockheed's management has apparently not been forthright with the Board and with Congress. As a Government official who has spoken out about the importance of maintaining the free enterprise system, I find Lockheed's actions deplorable. Lockheed's executives in making

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application for a Government benefit -- a guarantee of some of their borrowings -- have not disclosed what may prove to be material information to the Administration and the Congress. We recognize that very serious consequences are involved for Lockheed, for the aerospace industry, and for the loan guarantee program.

Before providing the Committee with an overview of the problem, let me summarize briefly the steps the Board is taking:

-- The Board has requested by letter that Lockheed: (1) confirm its oral understanding with the Board that it is to provide all material information concerning the bribes; (2) will request its auditor to furnish separately to the Board additional information regarding the transactions; and (3) furnish any additional information regarding the payments that the Board may deem necessary.

-- The Board has notified Lockheed that the Guarantee Agreement does not provide for any waiver of the Board's rights or remedies unless expressly waived in a writing signed by the Board. In addition, the acceptance of any certificates, representations, or other documents required to be furnished by Lockheed, under the Agreement, should not be deemed to constitute a waiver of any of the Board's rights.

-- As part of the Fiscal Agent's ongoing monitoring activities, the Board has requested that it prepare a current assessment of the Government's collateral under the Credit Agreement.

-- The Board has asked the Fiscal Agent to carefully consider the Expenditure Plans, which Lockheed furnished to the Board in connection with each drawdown of guarantee funds, to determine whether the Expenditure Plans should be regarded as false or incomplete in that no information regarding the bribes was provided.

-- The Board's staff has questioned past officials associated with the Guarantee program. None can recall any information coming to his attention which indicated that Lockheed was paying bribes to foreign officials.

-- The Board has requested that Lockheed's Agent Banks review the information in their possession to advise whether it indicates that Lockheed has been paying bribes.

-- The Board's staff is in the process of undertaking a complete review of its files, and has asked its Fiscal Agent to do the same, in order to confirm that the Board had no information about Lockheed's payments of bribes until June of this year.

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-- The Board has requested that the General Accounting Office, which is required to audit any borrowers under the Emergency Loan Guarantee program and to report its findings to the Board, search its files to determine whether or not they contain any information regarding the payment of bribes by Lockheed.

-- The Board's staff met with the GAO staff on August 19 for the purpose of creating a cooperative program whereby the Board may obtain whatever additional information it deems necessary to assess its position under the Guarantee Act and the Agreements.

Lockheed's Disclosure

Let me turn now to a discussion of how the Board learned of the Lockheed bribes. The Board did not become aware that Lockheed had paid bribes to foreign officials until early June of this year. This information was first transmitted orally to the Board's staff by Lockheed's financial officers. They advised that while proxy materials had been cleared by the Securities and Exchange Commission staff in connection with the company's scheduled annual meeting on July 18, 1975, Lockheed was unable to mail these materials to its shareholders. This was because Lockheed's independent auditor, Arthur Young and Company, would not certify Lockheed's

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financial statements, unless the company acknowledged that bribes had been paid to foreign officials and that the extent of such payments was defined. The Board's staff was told that the company's financial officers and its independent auditor were reviewing foreign sales practices and that the Board would be kept advised. The Board was aware that Lockheed paid sales commissions to foreign consultants. This practice was not cause for alarm in that it is a usual way of doing business. Of course, the Board recognizes the difference between legitimate and appropriate finders' fees and commissions to sales consultants and bribes paid to governmental officials, either directly or through commissioned agents. As a result of its initial inquiries, the Board's staff was left with an impression that there were isolated instances of bribes and that the amounts involved, while large, were not significant when viewed in comparison with those reported to have been made by other corporations.

An allegation which has appeared in the press on June 6 by the Northrop Corporation that it had modeled a Swiss subsidiary utilized to facilitate payments to its agents after one established by Lockheed had triggered Arthur Young and Company's

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inquiry. Discussions between the Board's staff and Lockheed officials about these developments included the procedures Lockheed was following in its review of foreign bribes and the time period to be covered. The staff began to become concerned that the dollar amount of payments made by Lockheed was substantial and that bribery might have been in issue in more than a few isolated instances. Additionally, Lockheed advised that it had made political contributions of approximately $25,000 in one country, but that such contributions were legal under local law.

On June 16, the Board's staff met with the Arthur Young and Company partner in charge of the firm's audit of Lockheed to discuss what Arthur Young was doing in connection with its review of the Lockheed bribes and the company's foreign sales activities generally. This meeting reinforced the staff's concern as to the magnitude of payments made.

On June 17 the Board's staff and a representative of its Fiscal Agent, the Federal Reserve Bank of New York, met with Lockheed's Senior Vice President for Finance at Lockheed's headquarters to discuss matters further with him. The Lockheed official indicated that he and Arthur Young were making a thorough review of the transactions in issue with a view towards reporting their findings to Lockheed's Board of Directors on June 23. He also stated that the Guarantee Board's staff would be provided with all relevant information relating to payments by Lockheed to foreign officials. The staff recalls that it was at this meeting that it became aware of a letter, dated April 29, 1975, to Lockheed from the Securities and Exchange Commission staff requesting that the company respond to certain general questions regarding payments it may have made to officials of foreign governments.

Initial Response by the Board

Once it had learned of the SEC's inquiry, the Board's staff was kept advised by Lockheed on the status of this inquiry. The staff has also received information about an inquiry into Lockheed's activities by the Senate Subcommittee on Multinational Corporations. Further, Lockheed has furnished the Board with its submissions to the SEC describing a number of transactions known or suspected by the company to have involved payments to foreign officials. Copies of these submissions were furnished to the Chairman of this Committee by the Board on August 15, 1975.

The Board's staff visited Lockheed's corporate headquarters again on July 21 and 22 to review the most current information about the bribery inquiry and to evaluate Lockheed's operating progress on its L-1011 program.

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Lockheed permitted the staff to review Arthur Young's report to Lockheed's Board of Directors, which described payments made to foreign officals and the establishment of a slush fund. The report substantiated the information contained in Lockheed's submissions to the SEC. The Emergency Loan Guarantee Board staff was informed by Lockheed officials that some bribes involved efforts to market the L-1011 aircraft.

At various times in mid- and late July, the Board's Executive Director, Edward C. Schmults, talked with each of the three Members of the Board to alert them of the magnitude of the problem. He also advised the Board Members that the staff was in the process of reviewing the Emergency Loan Guarantee Act and the Agreements between Lockheed and the ELGB to assess whether any violations or defaults have occurred by reason of Lockheed's foreign payments and what legal courses of action were available to the Board.

As this review developed in late July and early August, it became apparent that additional information was needed in order to determine whether the Guarantee Act or the provisions of Lockheed's agreements with the ELGB had been violated. Additional issues also had to be considered. These included the purposes underlying the Emergency Loan Guarantee Act, the Board's responsibilities under the Act, general U.S. policy with regard to bribery of foreign

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officials by U.S. corporations, and, finally, what actions the Board ought to pursue in response to these considerations. These considerations present difficult questions for the Board to resolve. Among issues to be addressed are:

1. How can the Board distinguish between proper commissions to sales consultants and instances where consultants use a portion of their fees to bribe foreign governmental officials?

2. With the purpose of the Guarantee program being the preservation of Lockheed's viability, should the Board take action which (a) might put the company at a competitive disadvantage with respect to both other U.S. corporations and foreign competitors, or (b) might cause Lockheed to fail, especially where rules have yet to be prescribed?

3. Would Board action have broad application affecting the ability of U.S. corporations to compete in certain parts of the world, given local business practices and customs?

In fact, the Board met earlier today in order to continue its attempts to resolve these difficult questions. Parenthetically, the Board reviewed a routine rollover of $30 million of guaranteed notes due today.

The Board's Monitoring Functions

I think it would be useful at this point to explain the procedure which the Board has followed to keep apprised of developments regarding Lockheed. In passing on the Emergency Loan Guarantee program, Congress had, as one of its primary purposes, a desire to avoid creating another bureaucracy. For this reason, among others, Congress directed the General Accounting Office to audit any borrower under the program and to report the results of its audits to the Board and to the Congress. In this connection, I want to acknowledge the controversy that took place in 1972 with regard to the GAO's role. Treasury General Counsel Pierce contended that the GAO did not have the statutory authority to review Board internal records relating to its own decision making. In any event, and in response to the position taken by Senator Proxmire and then Chairman Sparkman of this Committee, the Board has provided the GAO with every record in its files that has been requested. I want to point out that there was no question ever raised that the GAO could not inquire fully into Lockheed's own affairs. In fact, the Board demanded a provision in the Guarantee Agreement whereby Lockheed is required to provide the GAO full access to its records.

The Board is supported by a very small staff and by its Fiscal Agent, the Federal Reserve Bank of New York, which utilized officers and employees of its Credit and Discount Department. The largest the Board's staff has been was three full-time employees in the spring of 1973. The staff's efforts are supplemented on a when-needed basis by personnel from the Board Members' respective agencies. At the present time, the staff is comprised of an Executive Director, Edward C. Schmults, who also is the Under Secretary of the Treasury, and a full-time Secretary, Alan Vinick. A technical consultant and an attorney, assigned from Treasury, also work for the Board on a part-time basis.

The Board's staff and the Fiscal Agent have continuously monitored Lockheed's operations, particularly since the company experienced results in early 1972 which fell far short of expectations. Monitoring activities have included review of various Lockheed financial and production data, and regular meetings with Lockheed officials, with Lockheed's independent auditor (Arthur Young and Company), with customer airlines, and with lending banks.

The Board's staff has made frequent trips to Lockheed's facilities to review various programs in order to better assess the financial statements provided by the company. In the last two and a half years, the staff has spent approximately 158 days reviewing Lockheed's operations at the company's facilities. This figure excludes numerous visits by the Fiscal Agent's representatives to Lockheed's facilities.

Others have also been actively involved in reviewing Lockheed's circumstances. The Agent Banks advised us that, based on a preliminary review of the information in their files, their monitoring activities found no indication of any bribes. Further, Arthur Young and Company, Lockheed's independent auditor, which employs in excess of 200 people, or 25,000 hours, to perform Lockheed's yearly audit, has orally advised us that until early June 1975 they too were unaware of the fact that Lockheed had paid bribes. The point that I want to make is that if a system of making payoffs is well contrived, monitoring a multi-billion-dollar corporation's activities in a diligent fashion will usually not uncover such practices.

Additionally, the Board has never sought in its monitoring of Lockheed the task of verifying all of the company's cash receipts and expenditures, but rather has relied upon such information being furnished to it in the form of consolidated financial statements or program financial statements by the company's financial officers, its independent public auditors, and the General Accounting Office. The Board's role in monitoring Lockheed has been through a credit analysis approach which relies upon internal and independent auditors, the normal practice employed by commercial lenders.

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<u>Extension of the Guarantee</u>

As you are aware, the Guarantee Board recently approved a proposed refinancing plan for Lockheed which extended the Government's guarantee for two years through December 31, 1977. I think it should be made clear that when the Board met on May 17, 1975, to reach this decision, it had no knowledge of Lockheed's payments to foreign officials.

At its May meeting the Board reviewed Lockheed's draft financial statements for the year ended December 29, 1974. The Board's staff was advised by Lockheed that these statements were in the form as to which Arthur Young and Company was prepared to issue its audit certification subject only to completion of Lockheed's pending refinancing plan. In fact, at the time the formal agreements were executed, on May 20, the Board was furnished with certified financial statements signed by Arthur Young and Company, which, except for minor modifications, were identical to those supplied to the Board for its May 17 meeting.

The Board's staff and Fiscal Agent also reviewed the five-year financial forecast completed by Lockheed in April of this year. This financial forecast completed by Lockheed in April of this year. This financial forecast was discussed thoroughly at the Board's meeting. No reference was made in the forecast about the payment of the bribes by Lockheed to procure foreign business.

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In addition, Lockheed's Chairman and its Senior Vice President for Finance appeared before the Board on May 17, 1975, to discuss the risks associated with the company's business and to review the refinancing plan. Again, no mention was made of the company's payments to foreign officials. I emphasize that this was at the time that Lockheed had in its possession a letter from the SEC's staff asking for information about bribes paid by the company. It was also during this time that Senator Church's Subcommittee on Multinational Corporations was holding hearings on foreign bribes paid by U.S. corporations.

Because of allegations that had appeared in the press about other corporations, the Board's staff, in the process of briefing itself and the Board, asked Lockheed whether it had "laundered" funds through overseas subsidiaries for the purpose of making political contributions in this country. Lockheed's response to this question was that no such activity had occurred. In retrospect, it would have been advantageous to inquire as to whether Lockheed had made any payments to foreign officials. That question was not, however, considered at the time.

Concluding Remarks

From Lockheed's public statements, as well as from information which we received from Lockheed, it is clear that bribes had been paid prior to the Guarantee program. I want the record to reflect that all of the Members of the Guarantee Board are not only deeply concerned by Lockheed's failure to have advised us of these practices, but are distressed that the Government has been involved, even indirectly, in the L-1011 program if, as intimated by Lockheed, that program is partially dependent upon bribes for its success. Whether laws of the United States have been violated is to be determined following the reviews underway by the various Congressional committees and the agencies investigating these questions. A broader policy, however, is at stake here. The Emergency Loan Guarantee Board has been put in the position of seeking to protect the Government's interest as guarantor for creditors of Lockheed. In so doing, it finds itself working with a company that alleges that foreign payments of this nature are a normal and necessary method of doing business abroad in the highly competitive aerospace market. While the Board does not believe it is the appropriate agency to develop rules or standards of general applicability, it is formulating its own assessment of what has transpired in order to determine an appropriate course of action under the Guarantee Act. This assessment will include a balance of competing interests between the public's right to know and the alleged potential adverse impact of detailed disclosure on Lockheed's outstanding orders. Congress likewise, has a responsibility to determine what actions it should take in connection with the Government guarantee of loans to Lockheed.

When the Board has completed its review it will then be in a position to recommend whether a change in the Guarantee legislation is desirable.

Mr. Chairman, let me repeat what the Board is doing. In accordance with our responsibilities under the Act, we have sought all pertinent information from Lockheed, and others, so that we can address the underlying issues thoroughly and intelligently. We are hesitant to prejudice our position by presupposing what our response will be until we are sure of the facts, are informed of the conclusions of the SEC investigation, and have evaluated our own responsibilities under the Act. At that time, the Board will take whatever actions it concludes are warranted in response to Lockheed's misconduct.

Mr. Chariman, a crucial challenge facing us today is the preservation of the free enterprise system. Practices such as bribes made to secure foreign business can only increase the distrust and suspicion that is straining our national institutions. To argue that bribes to foreign officials are necessary for effective competition is contrary to every principle under the free market system. The Emergency Loan Guarantee Board wants to go on record as condemning these practices.

SECRETARY SIMON: Good morning, ladies and gentlemen, I would like to get going. I know John Turner and Dennis Healey have a press conference, and you may wish to attend those as well.

I feel this session is a little anti-climatic, my being with you, ladies and gentlemen, to explain what arrangements have been arrived at in the International Monetary Fund meetings, because of the agreements that were made over the weekend and the visits that I have had with the press subsequently.

As I said at that time, we have made great progress and had a significant breakthrough on some of the controversial issues, gold and quotas, and we remain in the negotiation in order to arrive at a final agreement on this package of International Monetary reform, which I expect we will be able to arrive at in January, after a hopefully satisfactory conclusion of the exchange rate arrangements and the adoption of the amendment that would address itself to that question.

Now, having said that, I would like to open this session up for Q's and A's, recognizing that we don't have much time.

QUESTION: Mr. Secretary, the South Africans and other people who really like gold are jumping up and down saying the interim committee agreement is good for gold, that it just might freeze gold out of one monetary system and go out into another since it will give central banks the time to sell some dollars for gold -- in exchange, it will give central banks the chance to sell some dollars for IMF gold and get more gold, and will give them the chance to exchange among themselves. The question I have is if this is so, why did the United States agree to the gold accord, and if it is not so, why did the United States decline to unbundle the gold issue and make it contingent on the implementation of the gold issue?

SECRETARY SIMON: We believe we need a comprehensive agreement on the international monetary reform arrangements which include the exchange rate issue. We have a clear mandate from our Congress that if we do not direct ourselves to the exchange rate issue, allowing the freedom we desire in these arrangements, that they would not act upon any amendments relating to gold or to quotas, and this is very clear.

I do not subscribe to the notion that I have heard in the past day that this is in danger of moving gold back in the center of the system. We believe we have agreed to adequate safeguards for the gradual phasing of gold out of the system. The abolition of the official price, the safeguards the central bankers will adopt on trading among each other, and, of course, the most important part, the aboliton of the official settlements of gold and in the International Monetary Fund, and the elimination of the IMF's ability to purchase gold, except under extraordinary circumstances which will require an 85 per cent vote.

The United States, from time to time, as you well know, will continue to sell gold on the marketplace, as I assume so will others. As I say, with these arrangements we have agreed to, or we will agree to, but also we have all agreed at the beginning to commence the phase out of gold as the center of the monetary system so it can be treated like any other commodity.

As I say, when I say phase out, this does not mean selling the gold precipitously and doing it in any specified period of time. We must look at the markets. We don't want to create disorderly markets. This will be done over a long period of time.

QUESTION: Sir, suppose the price of gold drops when the Monetary Fund sells it in the market. Would in such circumstance the American Treasury completely rule out the possibility of buying some of that gold in order to sustain the receipts of the so-called Trust Fund?

SECRETARY SIMON: We never rule out any possibility. we judge a market on what is happening, the market at that time, and make our decisions relative to that. That goes as far as our selling is concerned. I would expect the United States would refrain from selling its own stocks when gold was being disposed of by the INternational Monetary Fund. I would not rule anything out in this regard.

What I am saying is what we are trying to do in an orderly fashion is phase gold out of the international system, at the same time while not disrupting markets.

Now the important aspect of this, there is no price fixing. Indeed, one of the arrangements made over the weekend is that no actions would be taken by any governments to peg the prices of gold. If we are going to phase out gold, the only way it can be done is to do it in an orderly fashion.

QUESTION: You were saying Sunday night the one-sixth sale could go ahead immediately without waiting for the meeting in Jamaica. Is that still your position?

SECRETARY SIMON: I am told legally that is correct, it could happen. Whether it will or not remains to be seen.

QUESTION: What will be done legally?

SECRETARY SIMON: It can for the benefit of the developing countries; gold can be sold without any amendments to the articles.

QUESTION: Mr. Secretary, my name is Evelyn Y. Davis, I am editor of Highlights and Lowlights of Annual Meetings from New York City. I am known as the nation's leading minority stockholder. I am also a city of New York bondholder. In the last few weeks, naturally, myself and thousands of other bondholders have been concerned about the situation in New York.

What advice do you have to give us?

SECRETARY SIMON: Let me say, Miss Davis, I am also concerned about New York City and hopeful the necessary actions are going to be taken by the State and the City that are going to prevent a default of New York City obligations, which I consider to be a very bad idea, to put it mildly.

Now, as to advice, I don't think it is really the function of the chief financial officer to give advice to bondholders. All I can say is I am sure if these actions were taken by New York City, by New York State, the necessary actions, they are going to restore the financial credibility to this city. It will again regain access to the capital markets, the bondholders can rest assured their coupons will be paid on time as they have always been in the past.

But this is what must be done. They must place a credible program before the investors in this country, you and thousands of other investors that own them, New York City obligations, and convince them of their fiscal integrity.

QUESTION: Is there anything to what the City Corporation Counsel was talking about, the employees of the city will get paid before the bondholders, which is a direct violation of the Constitution of the bonds which says the bondholders have first daim to the full access of the city --

SECRETARY SIMON: That is my understanding, the bondholders do have the first position.

QUESTION: Does the Treasury know anything about this?

SECRETARY SIMON: The Treasury has no legal ability to do anything about it. I would assume there would be bondholders' suits if indeed the funds were attempted to be diverted to other than constitutional uses.

QUESTION: The taxes I have been paying over the years -- you are welcome to look at my tax returns. I don't believe the city is broke at all.

SECRETARY SIMON: Thank you, Miss Davis.

QUESTION: A Paris communique mentioned the possibility to work with the gold substitution account. We haven't heard that around here today. Is that going forward or will it provide a means for a study of the gold?

SECRETARY SIMON: They will continue to study the substitution of the hold, the substitution account, as we decided at the June Interim Committee meeting. I don't wish to pre-judge the outcome of the study, and how it would affect, but I see no way it would conflict with the arrangements that we have agreed to over the weekend.

QUESTION: Mr. Secretary, do the agreements reached have any significance or importance in terms of this nation's economic problems of recessbn and inflation, and if so, would you address yourself to those?

SECRETARY SIMON: I would not say they have any direct bearing on the present problems, the economic problems of any of the countries of the world. Certainly a smooth functioning international monetary system is important to all of the world's ecnnomies. I think there also is a psychological and confidence factor involved. We have been negotiating these very difficult areas for almost four years now. I have felt, on the confidence factor, that the people around the world might begin to question the ability of governments in general and finance ministers in particular to arrive at and make the necessary concessions, difficult compromises, political decisions, as well as financial and economic decisions necessary to arrive at a package that represents the compromises for all, that will be beneficial for everyone.

As far as the immediate recession and inflation, none of these arrangements will directly affect that, except to ameliorate the effects of deepening the recession on the most serious affected nations in some areas.

QUESTION: Mr. Secretary, did I understand you to say the Treasury wouldnot sell gold while the IMF is selling its gold?

SECRETARY SIMON: I said it depends, Bart, completely on what is going on in the marketplace and what the demand factors are in the marketplace at that time. I could envisage, if the IMF were in the process of disposing of a certain amount of its gold in the marketplace, the Treasury would refrain at that time from disposing of its own gold. Just to maintain, as I said, orderly markets.

QUESTION: Inasmuch as the IMF process might take two or three years, we haven't been told how long, does that mean the Treasury might conceivably be out of the market for that length of time?

SECRETARY SIMON: No, it doesn't, because it is unclear yet. This will unfold over the coming months, exactly how the IMF would dispose of the gold, whether initially it will sell gold to the central banks around the world. That is part of the global limit, you know, that has been set on gold holdings, which is one of the safeguards we have negotiated.

QUESTION: Mr. Simon, Dr. Witteveen specifically named the United States as one of the three strong countries which would afford to do something to get trade moving -- the other two have told us they think they have done enough. Dr. Witteveen has also cited fiscal methods which would appear to take the problem away from Mr. Burns and put it towards you. What is your response in view of the size of the deficit?

SECRETARY SIMON: My response in view of the size of the deficit in this country is predictable. We believe we have taken adequate measure to protect our economy in cooperation with Arthur Burns, the Federal Reserve Board, and their expansionary economic policies so far this year. We have a deficit of $60 billion, but it is still unclear, and Congressional actions and inactions will determine what that deficit will be.

We have presented a mid-session review of the budget about a month ago. Jim Lynn, and I, and it illustrates very eloquently the size of our deficits, not only this year but in the fiscal year 1977 and beyond. My concern is not that we have not done enough. My concern is have we done too much.

QUESTION: Mr. Secretary, you are against fixed exchange rates and you are against gold in the monetary system. What foundation do you expect -- discipline -- (inaudible)

SECRETARY SIMON: In my speech today, I direct myself, I believe, to that issue. You know, it is not William Simon who is opposed to gold in the central system. This was a general agreement among the Finance Ministers of the world over the past four years. They have agreed to phase out this commodity from the center of the system, recognizing the world today we live in versus the world when that system was designed.

What is the foundation of a stable currency? A sound, durable, non-inflationary economy at home is what the basic foundation of a sound currency is, and I think that is illustrated in the recent strengthening of our dollar in the world markets as a result of our being able to begin to win -- I say begin, we won a battle, not the war -- our battle against inflation.

QUESTION: Mr. Secretary, are you comfortable with the statements made yesterday on Secretary Kissinger's behalf concerning attempts to negotiate monetary agreements intended to stabilize prices of those commodities in international markets?

SECRETARY SIMON: Yes, I am. Just a word of background on that, because lots is often written about economic policy of the State Department, and the Treasury Department.

Let's understand one thing. I saw by the New York Times this morning, Leonard Silk treated this in a very even-handed factual manner; foreign policy and economic policy have different objectives and they are going to be necessarily conflicting views If there were not conflicting views, one of us would not be doing our job properly in designing initiatives consistent with our free market principles in the United States, which remain our fundamental principles.

We have to resolve these differences and make concessions, never against the free market principles that we adhere to, and we have done this.

Henry and I worked very closely in developing these initiatives, and the State Department and we agree that the tin agreement and the other agreements we are studying on a case by case basis, we believe this tin agreement does not interfere with our free market forces nor is it joining a cartel. A cartel is a group of producer countries that rig the prices of a commodity. This agreement includes consumers as well as producers, with a buffer stock arrangement to assure adequate supply during periods of shortage.

QUESTION: The IMF did some, but most of the burden of payments financing has been on the shoulder of the American banking establishment, so with the phasing out of the gold if there is no SDR in the central system, will not the burden be too heavy for the governments --

SECRETARY SIMON: The SDR is the center of the system. We want to strengthen the SDR. We are all agreed upon that.

Now what was the first part of your question?

QUESTION: (inaudible) -- the question, the financing burden for the American banking system.

SECRETARY SIMON: I don't consider the recycling process as a burden on the dollar. If it were a burden on the dollar, the dollar would not be, in my judgment, increasing in value as it has. The private financial markets have, as we have maintained for the past year, done a magnificant job, in bearing the burden of most of the recycling.

Simultaneously, we have established mechanisms that would smooth out this flow and I look forward to continued smooth markets in the international financial markets. Our problem in respect to the oil price area is not the financial problem, it is the economic and political.

QUESTION: Mr. Secretary, if a number of key third party countries have come here specifically for the purpose of scraping up immediate short term public or private credit to finance vital food imports, specifically Argentina and Egypt, now the next major step according to a number of these countries is that they cannot scrape up just a few hundred million dollars for imports, then the next step will be a default, a declaration, what is the possibility of avoiding a revolt of the slaves?

SECRETARY SIMON: A revolt of the slaves? I certainly would not agree with that comment at all. I think the United States approach to the developing countries has been extremely forthcoming, not just in the initiatives that Henry and I, yesterday and today, have announced but also during the past 25 years, or 30 years since World War II.

We continue to wish to help these nations help themselves. In the final analysis, their prosperity is dependent on how they use their resources and the domestic policies that they promote to achieve the permanent increase in the standards of living for all of their peoples that all of them desire.

I don't anticipate a so-called revolt. I think they recognize we, the industrialized world, are sincerely trying to help them.

QUESTION: Sir, you said here today you think we have done enough to inflate our economy this year, what about next year and the tax cut being extended?

SECRETARY SIMON: I would not pre-judge any further expandionary measures. If they are needed we will take them. If an extension of the tax reduction is required, as I have said in the past, I would recommend to the President that it be extended, but it is pretty much hard to judge that at this time. With the revised figures on our GNP for the second quarter which show a positive 1.6 per cent real growth. We expect we are going to have significant growth in the third and fourth quarters in 1976. We believe we have had adequate expansion in this country.

What we must do now is attempt to manage this recovery so we do not have a resurgence of the inflationary pressure which is our true long-term enemy.

QUESTION: Mr. Secretary, when the Committee of 20 met last January, the only topic worth speaking of was the so-called Kissinger Safety Net. Nobody speaks about it now. Do you think it is still useful?

SECRETARY SIMON: Of course it is still useful. The Financial Support Fund is a needed safety net, a lender of last resort, that is going through the various legislative processes in the countries in the world who have agreed to join this insurance mechanism. I am optimistic we are goint to have early Congressional approval.

Yes, it most certainly is still needed.

QUESTION: Mr. Secretary, in regard to a response a minute ago on that third world question, how do you explain what is your response to the criticism contained in the communique by the third world on the arrangements on gold?

SECRETARY SIMON: People always want more. Here again, attempting to design agreements and reach complete 100 per cent agreement on every one of these issues is going to be impossible. That is what compromise is. We think this compromise that was worked out is fair.

QUESTION: Mr. Secretary, according to the main Treasury bulletin, the United States commercial banks have about $20 billion worth of short-term debt outstanding to third world countries; another $10 to $15 billion of such debt can be calculated to be outstanding to such countries on the Euro-dollar market, almost all of this debt was issues since the oil market and since the 1974 drop in commodity prices, to finance the huge third world balance of payments, deficits now running $40 billion a year -- most commercial bankers note the repayment of such debts is well nigh impossible, at least half of this debt is right now being rolled over on the Euro-dollar market and the implication of maintenance of such debts is expected to reduce third world imports by a number of UN experts, by approximately 50 per cent by the end of the year.

The two part question I have on this is first of all, has the Treasury anticipated the effect of this short term third world debt on international trade and secondly, has it anticipated the effect of a moratorium on this debt, most of which is considered by commercial bankers to be well nigh unpayable on the U. S. commercial banking system?

SECRETARY SIMON: I don't subscribe to that notion that it is well nigh unpayable. That is not clear to any one. It seems we succumb so often, as we have in the past two years, to the Calamity Janes in this world on almost any subject without taking any balanced measured judgment of what some of the alternatives are. We have very competent and active bank regulatory mechanisms here in the United States, the Comptroller of the Currency and a Federal Reserve System. I do not anticipate any financial problems as a result of what you describe. No, I do not.

Now, as far as debt rescheduling, we will approach rescheduling on a case by case basis. Thus far we have not seen any evidence of this problem of the magnitude that you describe.

QUESTION: The figures mentioned by Secretary Moynihan on the trust fund are significantly larger than mentioned by Dr. Witteveen. What is the United States seeking there and what kind of lick have you had in conversations with your colleagues from overseas?

SECRETARY SIMON: I think since we proposed the trust fund concept a year ago, we have had general agreement among the countries of the world on the concept. As far as what the exact amount will turn out to be it depends on the negotiations that proceed from here.

QUESTION: On the remaining issue of exchange rates, which you feel will be resolved by January, would you elaborate a bit on what you consider to be the minimum conditions for settlement of this issue?

SECRETARY SIMON: I think there are probably a couple of minimum conditions. One, we have to recognize the world we are in today, the present ARticles of Agreement state that par values must be maintained, but that is not happening in today's world.

There is a view that this living in sin as far as the present Artciles of Agreement must be addressed. We feel, and so does our Congress, that the freedom by any country to have floating rates must also be recognized in the new amendments and we are going to attempt to agree on words to do this.

The Congress has been very clear in its attitude on this, relative to its agreement on quotas, gold, and other suggestions we send up with that.

QUESTION: Can you explain in more detail how the commodity financing scheme -- (inaudible)

QUESTION: Would you repeat the question, Mr. Secretary?

SECRETARY SIMON: Explain commodity financing agreements.

We do not have all of the specifics on all of the commodity financing agreements. We do not wish to attempt to impose all of the specifics of our ideas upon the rest of the world. We have ideas based around broad concepts in the area of commodities. Let us get together now and work out all of the details of these issues. The specifics will become apparent to all over the next couple of months.

One more.

QUESTION: Mr. Secretary, is it correct to say the American position on the exchange rate indicated tha- you believe -- in your position on exchange rates, is it correct to assume that you view currencies as nothing more or less than commodities, subject to the forces of the marketplace?

SECRETARY SIMON: No, I would not go that far. But I believe currencies certainly are subject to the free forces of markets. If one attempts to peg the rate at an artificial level, ultimately, as we have seen so often during the current crises during the last five years of the Bretton Woods system, devaluations, and revaluations occur, in recognition of what the market forces are dictating on the exchange rate.

We think the new flexible system, the voluntary system we have now, recognizes this fact. Minimal changes over short periods of time are less disruptive than the abrupt market closings, etc., that we had in the five years that preceded the end of the Bretton Woods agreement.

Again, I discuss this in my speech. Copies are available in the rear of the room, embargoed for 11 o'clock.

Thank you.

(Whereupon, at 8:40 a.m., the press conference was concluded.)

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 9:00 A.M., EDT
WEDNESDAY, SEPTEMBER 3, 1975

MEMORANDUM TO THE PRESS

Attached for your information is a discussion draft of proposed amendments to the income tax regulations respecting the taxability of fringe benefits, which the Treasury Department sent to the Federal Register September 2, 1975.

These amendments are being released as a discussion draft rather than as a formal notice of proposed amendments in order to provide an opportunity for review and comment by all interested parties, including the tax writing committees of Congress.

An explanation of the considerations underlying the precedents and the proposed rules is also attached in the hope that it will assist in focusing public discussion.

September 2, 1975

DEPARTMENT OF THE TREASURY

INTERNAL REVENUE SERVICE

[26 CFR PART I]

INCOME TAX

Fringe Benefits; Notice of
Publication of Discussion Draft of Regulations

Notice is hereby given that the Department of the Treasury is currently considering proposed amended regulations prescribing standards for determining whether incidental facilities, goods and services benefiting employees, commonly referred to as fringe benefits, result in compensation includible in gross income. The proposed regulations are set forth below in discussion draft form.

The Internal Revenue Code does not provide specific rules for determining which economic benefits provided to employees by their employers are required to be included in gross income. Administrative practice over the years has permitted certain items to be excluded from the employees' income. The need to provide guidance for all taxpayers has been apparent for some time. Before publishing a notice of proposed rulemaking, the Department of the Treasury is publishing the attached discussion draft to provide an opportunity for review and comment by all interested parties, including the tax writing committees of Congress.

Consideration will be given to any comments or suggestions with respect to the provisions contained in the discussion draft. Such comments or suggestions should be submitted in writing (preferably in duplicate) to

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the Office of the Assistant Secretary of the Treasury for Tax Policy, Washington, D.C., 20220, with copies (preferably four) sent to the Commissioner of Internal Revenue, Attention: CC:LR:T, Washington, D C. 20224, within the period of 60 days from the date of publication of this notice in the Federal Register.

Designations of material as confidential or not to be disclosed, contained in such comments, will not be accepted. Thus, a person submitting written comments should not include therein material that he considers to be confidential or inappropriate for disclosure to the public. It will be presumed that every written comment submitted in response to this notice is intended by the person submitting it to be subject in its entirety to public inspection and copying in accordance with the same procedures as are prescribed in 26 CFR 601.702(d)(9) for public inspection and copying of written comments received in response to a notice of proposed rulemaking.

Assistant Secretary for Tax Policy

APPENDIX (DISCUSSION DRAFT OF PROPOSED REGULATIONS)

TITLE 26--INTERNAL REVENUE

CHAPTER I--INTERNAL REVENUE SERVICE
DEPARTMENT OF THE TREASURY

SUBCHAPTER A--INCOME TAX

[INCOME TAX REGULATIONS]

PART I--INCOME TAX; TAXABLE YEARS BEGINNING
AFTER DECEMBER 31, 1953

Incidental Facilities, Goods, and Services
Benefiting Employees

DEPARTMENT OF THE TREASURY,
Office of Commissioner of Internal Revenue
Washington, D.C. 20024

TO OFFICERS AND EMPLOYEES OF
THE INTERNAL REVENUE SERVICE
AND OTHERS CONCERNED:

Preamble

This document contains proposed amendments to the Income Tax Regulations (26CFR Part 1) prescribing rules to determine whether or not incidental facilities, goods, and services benefiting employees result in compensation includible in gross income. These benefits commonly are referred to as fringe benefits.

Some fringe benefits, such as the provision of health insurance by an employer for his employees, are excluded expressly from gross income by statute. The status of most other fringe benefits is not answered expressly by statute. The amendments to the regulations prescribe rules to determine whether or not these fringe benefits constitute compensation includible in gross income.

The general rule of the proposed amendments permits an employer to share with its employees benefits arising from its business where the employer incurs no additional cost. To prevent abuse, the general rule does not apply to fringe benefits that are available only to the most highly compensated employees. An example covered by the general rule is the stand-by travel privileges accorded to flight attendants by commercial airlines.

Failure of a benefit to qualify under the general rule does not automatically mean that the benefit results in taxable income. In all cases where the requirement of the general rule is not met the fringe benefits must be examined more closely to determine whether or not the benefit derived is taxable as compensation. Under the proposed amendments where the benefit provided by an item is so small as to make accounting for it unreasonable or administratively impractical, there is no taxable compensation. This de minimis exception applies, for example, to an employee having his secretary type a personal letter.

Where a fringe benefit does not meet all of the tests of the general rule and it is too significant to be ignored under the de minimis exception, whether or not the benefit conferred constitutes compensation includible in gross income is determined on the basis of all the relevant facts and circumstances. The proposed amendments set out nine of the factors to be taken into consideration. Among these factors are: (i) whether or not the employer incurs a substantial and identifiable additional cost, (ii) whether or not the benefit is reimbursement of an unusually large expense of the employee incurred on account of his employment, (iii) whether or not the benefit is provided to employees in a way that does not discriminate in favor of the most highly compensated employees, and (iv) the relationship of the expense to the employers' business.

Where a fringe benefit is determined to result in compensation includible in gross income, the amount of compensation is the fair market value of the benefit. This is the amount that the employee would have to pay on an arm's-length basis for the benefit or its equivalent.

Among the examples included in the proposed amendments applying the facts and circumstances test is an executive who has a company jet make a special trip to enable him and his wife to shop and attend a play in another city. The executive is held taxable on an amount equal to the cost of chartering an equivalent plane to make the trip. Another example states that an employee does not have gross income where his employer provides him with protection in response to threats made by terrorists alleging that the employer has exploited the terrorists' country.

A number of examples deal with the use of an automobile furnished by the employer. One example holds that a fire chief does not have compensation from the use of a car to enable him to go on short notice to the scene of major fires. Another example holds that the use of a government automobile by a United States ambassador to travel to and from work, as permitted by Federal statutes regulating the use of official vehicles, does not result in gross income. There also is an example holding that providing a chauffeur-driven car to take a top executive of a corporation to and from work results in compensation, but that use of the car to take the executive from his office to business appointments does not result in compensation.

Proposed amendments to the regulations.

In order to provide rules relating to whether or not incidental facilities, goods, and services benefiting employees result in gross income to the employees, the Income Tax Regulations (26 CFR PART I) are amended as follows:

Paragraph 1. Immediately after section 1.61-15 there is added the following new section:

1.61-16 Incidental facilities, goods, and services benefiting employees.

(a) In general. Where an employer makes available to its employees generally facilities, goods, or services that exist incidentally to its trade or business, the resulting benefits to employees, their immediate families, or guests accompanying the employees shall not be treated as compensation includible in gross income under the following circumstances:

(1) The facilities, goods, or services are owned by or under the control of the employer for purposes proper to the conduct of the trade or business involved and are primarily unrelated to the personal use or consumption of such items by employees of the employer,

(2) The facilities, goods, or services are made available to employees under terms and conditions such that the employer incurs no substantial additional cost in making them so available, and

(3) The facilities, goods, or services are made available to employees generally or to reasonable classifications of employees determined, for example, on the basis of the nature of their work, seniority, or similar factors (but not including classifications primarily including only the most highly compensated employees).

The extension under like circumstances of similar privileges by an employer to individuals who are employees of another employer in the same or a related trade or business shall not be included in the income of such individuals or their employer.

(b) Other benefits. Where facilities, goods, or services are made available under circumstances that do not meet the requirements of paragraph (a), whether or not the benefit conferred constitutes compensation includible in gross income will be determined on the basis of all the facts and circumstances. The following factors, among others, shall be considered where present. The presence of one or more of them will not necessarily be controlling, but will be a fact tending to indicate that the benefit does not constitute compensation includible in gross income.

(1) The cost incurred by the employer in providing the benefit is not identifiable or is not significant in relation to the fair market value of the benefit received by the employee.

(2) The personal use occurs during, immediately before, or immediately after working hours at or near the business premises of the employer and has a proximate relation to work performed by the employee.

(3) The benefit is provided to employees generally or to reasonable classifications of employees determined, for example, on the basis of the nature of their work, seniority, or similar factors (but not including classifications primarily including only the most highly compensated employees).

(4) The benefit is similar to a service or other benefit which is commonly provided by state or local governments in the United States, but which is not readily available to the employees because of the location of their employment.

(5) The benefit accommodates an important requirement of the employer or relieves the employer of significant expense or inconvenience.

(6) The benefit is reimbursement of a greater than usual item of expense which was incurred by the employee for a purpose normally thought primarily personal but which was incurred because a business requirement of the employer prevented the employee from obtaining the item in the ordinary manner.

(7) The benefit is provided primarily to insure the employee's safety by protecting against a significant risk arising from the employment relation.

(8) The benefit is not a substantial amount absolutely or in comparison to the employee's stated compensation.

(9) The item generally is not thought of as constituting compensation includible in gross income.

The failure of a benefit to qualify under one or more of the above factors, in appropriate cases, may be a fact tending to indicate that it does constitute compensation includible in gross income.

(c) De minimis exception. The provision of facilities, goods, or services shall not be deemed to give rise to compensation includible in gross income when the amount of such item is so small as to make accounting for it unreasonable or administratively impractical.

(d) Amount of income. If it is determined that an item is con-pemsation includible in an employee's gross income, then the amount included in gross income is the fair market value of the item, which is the amount that the employee would have had to pay, on an arm's - length basis, to obtain use or possession of equivalent facilities, goods, or services.

(e) Definition. For purposes of this section the term "employee" includes self-employed individuals, independent contractors, and officers of a corporation, but does not include shareholders of a corporation as such.

(f) Examples. The principles of this section are illustrated by the following examples.

Example (1). Flight attendants for a commercial airline are permitted to make a specified number of trips each year at no cost. The number of trips allowed each flight attendant depends upon the length of time each flight attendant has been an employee of the airline. A flight attendant must have been an employee for at least six months before being eligible to take any such flight. Flight attendants may travel to any destination served by the employer airline or by any airlines with which the employer has reciprocal arrangments. Trips are permitted only on a space available basis and do not result in loss of revenue to the airline. The trips taken by a flight attendant on the employer airline, or on another airline with which the employer has a reciprocal arrangement, qualify under paragraph (a) and are not compensation includible in gross income because the flights on which the flight attendant travels are a part of the airline's regular business and are primarily unrelated to personal use by employees, the employer incurs no substantial additional cost, and the classification of employees by their function as flight attendants and sub-classification by seniority is a reasonable method of classification.

Example (2). A commercial airline encourages bona fide travel agents to take a reasonable number of trips each year on a stand-by basis at a nominal price. The purpose of making the travel privileges available to the travel agents is to familiarize them with the airline's services and with the attractions at destinations served by the airline, and thus to increase the likelihood that they will arrange for their customers' travel using services provided by the airline. The business of travel agents is related to that of the airline. The extension of transportation to a travel agent for a nominal price qualifies under paragraph (a) for the reasons given in Example (1) regarding the similar benefit made available to a flight attendant.

Example (3). A retail store allows its employees with at least six months' service a discount on purchases made at the store. The price of merchandise net of the discount to the employees is not less than the wholesale price of the merchandise. The benefits received by an employee may qualify under the de minimis exception of paragraph (c). Even if they do not so qualify, the merchandise discounts do qualify under paragraph (a) because the merchandise is from normal inventory, the employer merely forgoes additional income and does not incur any significant additional costs, and the discount is generally available to all employees. An employee does not realize compensation includible in gross income by reason of the discount.

Example (4). An interior decorator purchases furniture for her own home at the wholesale price generally charged interior decorators by the manufacturer. The business of the interior decorator is related to that of the furniture manufacturer. The lower price to the interior decorator does not result in compensation includible in gross income under paragraph (a) for the reasons given in Example (3) regarding similar benefits to employees of a retail store.

Example (5). (a) An executive of a company and his wife travel in a company-owned plane to City A to shop and attend the theater. The plane otherwise would not have made the flights. The executive works during the flights to and from City A. Company policy allows top executives to use its planes for such personal trips. The use of the company plane does not qualify under paragraph (a) because the employer incurred substantial additional cost and because such use of company planes is restricted to top executives. Under paragraph (b) the most important relevant factors are the large identifiable costs incurred by the employer, the absence of a proximate relationship of the trip to the executive's employment, and the limitation of the use of the company planes to top executives. The executive has compensation includible in gross income. Since the company plane made the trip solely for the benefit of the executive and his wife, the amount of gross income is the cost of chartering the same or an equivalent plane for the round trip to City A.

(b) The executive's secretary accompanied him on the trip to City A to take dictation and perform other secretarial duties during the flight. Since the secretary's primary purpose of traveling to City A was to be available to the executive, the incidental personal pleasure which she derives from the travel qualifies under the de minimis exception of paragraph (c). The secretary's travel also qualifies under paragraph (a) because the use of the plane to transport the secretary to City A was proper to the secretary's employment as the executive's personal secretary, the employer incurred no substantial additional cost in her traveling, and the availability of such travel to the secretary under such circumstances constitutes a reasonable classification because of the nature of her duties. The Secretary has no compensation includible in gross income as a result of traveling to City A.

(c) The secretary's mother also accompanied her on the trip at no additional cost to the company. Since the travel did not constitute compensation includible in gross income to the secretary under paragraph (a), the same benefit extended to her mother, as a member of her immediate family, did not constitute compensation includible in income to anyone.

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Example (6). A company executive travels to City B on a company-owned plane to attend a two-day trade convention important to the business of the company. At his invitation he is accompanied by his wife and daughter and the president of a college located in the same community as the company. The wife, daughter, and college president occupy seats on the plane that otherwise would have gone unused. The wife, daughter, and the college president do not attend the trade convention. Under paragraph (a) transportation furnished to the wife, daughter, and college president do not constitute compensation includible in gross income to anyone because under paragraph (a) the flight to City B was primarily for a business purpose and was primarily unrelated to the personal enjoyment of the executive, the furnishing of transportaion to additional persons did not entail any substantial additional expense to the company, and the extension of the privilege of inviting guests to those classes of employees who are themselves traveling for a proper purpose of the employer is a reasonable classification. The furnishing of transportation to the wife, daughter, and college president does not constitute compensation includible in gross income.

Example (7). A company's plant is located in an area which is unsafe at night and in which there is not suitable public transportation available to employees leaving work between midnight and 6 a.m. An employee finishing work at 2 a.m. is reimbursed exactly for taxi fare home under a general policy extending taxi service or reimbursement to all employees finishing work between midnight and 6 a.m. Employees who drive their own automobiles may park in a protected area, but are not paid for taxi service not used.

The furnishing of taxi fare at night does not qualify under paragraph (a) because the employer incurs substantial additional cost in furnishing it. Under paragraph (b) the most important relevant factors are the exact reimbursement of a greater than usual expense incurred by an employee who would ride mass public transportation if it were available, the safety factor, and the general availability of the taxi fare to similarly situated employees. The taxi fare reimbursement does not constitute compensation includible in gross income.

Example (8). An accounting firm reimburses an employee the exact amount the employee spends on dinner and on taxi fare home where the employee works several hours beyond his normal quitting time because of the press of the employer's business. The reimbursement does not qualify under paragraph (a) because the employer incurs substantial additional expense. Under paragraph (b) the most important relevant factors are the exact reimbursement of a greater than usual expense incurred by the employee, the accommodation of an important business requirement of the employer, and the proximate relation of the reimbursement to the overtime period. The reimbursement does not constitute compensation includible in gross income to the employee.

Example (9). A company provides a chauffeur-driven automobile to and from work for each of its top executives. The cars also are available to the executives for trips to and from business appointments. The furnishing of such service to the executives does not qualify under paragraph (a) because the cars and chauffeurs are not primarily

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unrelated to the personal use by the executives, the employer incurs substantial additional cost, and the service is limited to the highest paid executives. Under paragraph (b) the most important relevant factors are the limitation of the chauffeur service to the top executives, the proximate relation of the transportation to the executive's work, and the accommodation of the needs of the employer. In this case a distinction must be made between providing transportation to and from work, which is a personal commuting expense, and transportation to and from business appointments, which is a business expense. The former constitutes compensation includible in gross income while the latter does not. The amount of compensation realized by the executives is the cost of obtaining the same or equivalent chauffeur service to and from work on an arm's-length basis.

Example (10). A company's headquarters are in an office building which it owns in the downtown area of a large city. The building has garage space in the basement that is used for deliveries and guest parking. A limited number of spaces also are available for parking by the company's employees. In allotting those spaces among its employees, the company gives preference to those employees whose duties require them to work irregular hours, who frequently use their cars for business purposes during the day, and, other things being equal, to employees with seniority. These criteria, in fact, result in most of the spaces being alloted to executives, but spaces also are provided to others who meet the criteria and are not available to executives who

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do not meet the criteria. The employer incurred a substantial additional cost in acquiring the parking facility and incurs continuing substantial additional costs in maintaining and operating the facility. Because the parking spaces are assigned to employees on a guaranteed basis, the use by the employees preempts other potential uses. Accordingly, the use of a parking space does not qualify under paragraph (a) because the employer incurs substantial additional cost. Under paragraph (b) the most important relevant factors are the availability of the parking in the employer's building during working hours, the reasonbleness of the classification, and the accommodation of the employer's important requirement that the employees using the parking facilities be readily available. The employees using the parking facility do not have compensation includible in gross income.

Example (11). United States ambassadors are furnished an official vehicle and driver. An ambassador uses his car on official business and for commuting from his residence to the embassy. Federal laws governing the use of funds appropriated for Executive departments and agencies prohibit the use of appropriated funds to operate and maintain any Government-owned automobile that is not used exclusively for official purposes. Under these provisions, official purposes does not, with limited exceptions, include transporting a government employee to and from work. An employee who willfully uses, or authorizes the use of, a government vehicle for such transportation may be suspended from employment or, if the circumstances warrant, summarily removed from office. However, these prohibitory provisions do not apply to vehicles for official use of the President, the heads of certain enumerated executive departments, ambassadors, minister, charges d'affaires, and other principal diplomatic and consular officials. The providing of an official vehicle and driver to ambassadors does not qualify under paragraph (a) because the vehicles and drivers are not primarily unrelated to the personal use by the executive, the employer incurs substantial additional cost, and the benefit is limited to the most highly compensated officials. Under paragraph (b) the most important relevant factor is the finding by Congress, implicit in the provisions regulating use of appropriated funds, that the official duties of certain federal employees require that they be on call at all times and have the use of an official vehicle for transportation to and from work. Depending on the circumstances provision of an official vehicle and driver also may protect the ambassador from a danger arising from the employment relationship. See examples (7) and (13). The use of the official vehicle and driver by the ambassador does not constitute compensation includible in gross income.

Example (12). The fire chief of City C is required to be available by telephone at all times and to be able to go on short notice to the scene of major fires. The city provides a car and driver which is available at all times. The fire chief occasionally uses the car for nonbusiness purposes. The providing of the car and driver to the fire chief does not qualify under paragraph (a) because it requires substantial additional expenses by the employer.

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Under paragraph (b) the most important relevant factors are the proximate relation of the car and driver to the fire chief's duty to supervise personally fighting of all major fires and the accommodation of the employer's requirement that the fire chief be readily available for this duty. The use of the car and driver by the fire chief to go to fires does not constitute compensation includible in gross income. The occasional personal use of the car and driver by the fire chief qualifies under the de minimis exception of paragraph (c) and does not constitute compensation includible in gross income.

Example (13). The president of a multi-national corporation is threatened by an organization of political extremists in a foreign country who allege that the corporation has exploited their country. The corporation provides bodyguards for the president and his immediate family. The protection does not qualify under paragraph (a) because it requires substantial additional expense by the employer. The most important relevant factor under paragraph (b) is providing for protection of the executive and his family from a danger arising from the employment relationship. The protection does not result in compensation includible in gross income.

Example (14). An automobile agency furnishes cars to its employees as "demonstrators" without charge. The employees use the automobiles primarily for personal use. Because of such use the employer receives a reduced price when the demonstrators are sold. The furnishing of the automobiles does not qualify under paragraph (a) because the employer incurs substantial additional cost. Under paragraph

(b) the most important relevant factors are the significant cost incurred by the employer and the absence of a proximate relation of the furnishing of the automobiles to the employees' employment. The employees each have compensation includible in gross income in an amount equal to the cost of leasing the same model automobile in an arm's-length transaction.

Example (15). An employer furnishes automobiles to all 30 of its outside traveling salesmen who are away from home an average of four days a week. The company permits the employees to keep the cars over weekends and to use them for personal purposes, provided that they pay for all gasoline they consume for personal use. The employer does not incur any substantial and identifiable cost to maintain and operate the cars because of the personal use of them by the employees. When the employer trades in the fleet of automobiles used by the salesmen, personal use of the cars does not materially affect the price it is able to obtain. The furnishing of the automobiles qualifies under paragraph (a) because the use of the automobiles is proximately related to the employer's business and the personal use by the employees is not the primary purpose for their acquisition, the employer incurs no substantial additional cost, and providing the benefit for a class consisting of all the outside traveling salesmen is a reasonable classification. The use of the automobiles by the salesmen does not result in compensation includible in gross income.

Example (16). An employee occasionally has his secretary type a personal letter and make a copy of it for his records on his employer's electric copying machine. The personal use of the secretary and the copying machine qualifies under the de minimis exception of paragraph (c) and does not result in compensation includible in gross income.

Example (17). A law firm pays bar association dues of lawyers employed by it. The firm also has a monthly cocktail party for all attorneys and paralegal personnel and has an annual golf, tennis, and swimming outing at a country club.

(a) The payment of bar association dues may qualify under the de minimis exception of paragraph (c). If the amount paid by the employer on behalf of each attorney is a substantial additional cost, then paragraphs (a) and (c) will not apply. For purposes of paragraph (b) the most important relevant factors are the proximate relation of the bar association dues to the practice of law, the general availability of the dues reimbursement to all employed attorneys, and the employer's interest in having its attorneys participate in local bar associations. No compensation includible in gross income results from the payment of the dues.

(b) The monthly cocktail party and the annual outing may qualify under the de minimis rule of paragraph (c). If the costs incurred by the employer are substantial, then paragraphs (a) and (c) will not apply. For purposes of paragraph (b) the most important relevant factors are the general availability of the cocktail party to all attorneys and paralegal personnel and the employer's interest in having all of the legal staff become acquainted with each other and the on-going work in the firm. Permitting only attorneys and paralegal personnel to attend the cocktail parties and outing is a reasonable classification of employees. No compensation includible in gross income results from the cocktail parties and outing.

Example (18). A corporation maintains American-style schools for the children of its employees at overseas locations where local schools either are not available or are not comparable to American schools. No tuition is charged. Paragraph (a) does not apply because the employer incurs substantial additional expenses. Under paragraph (b) the most important relevant factor is that the school provides benefits similar in nature to services provided in the United States by local governments. The employees have no compensation includible in gross income as a result of their children attending the employer-sponsored school without paying tuition.

Example (19). An employer maintains a day care center on its premises for pre-school children of its employees who desire to use the facility. Paragraph (a) does not apply because the employer incurred substantial additional costs. Under paragraph (b) the most important relevant factor in this case is that section 214 of the Internal Revenue Code provides special rules regarding the deduction of day care and certain other expenses. It would frustrate the policy of section 214 if the fair market value of the services of the day care center were not included in gross income of the employees utilizing them and then deducted only to the extent provided in section 214. The employees whose pre-school children use the day care center have compensation includible in gross income. They may have an offsetting deduction under section 214.

(g) Effective date. (1) No employee of the United States shall be treated as having compensation includible in gross income by reason of the use of any official vehicle owned or operated by or on behalf of the United States on or before [insert date this Notice is published in the Federal Register].

(2) No employer of an automobile agency or related business shall be treated as having compensation includible in gross income by reason of the use of a car furnished by his employer as a "demonstrator" without charge (see example (14) of paragraph (f)) on or before [insert date this Notice is published in the Federal Register].

Paragraph 2. Paragraph 1.61-2(d) is amended by adding at the end thereof the following new subparagraph:

1.61-2. Compensation for services, including fees, commissions, and similar items.

* * * * * *

(d) Compensation paid other than in cash. * * *

(6) For special rules relating to certain incidental facilities, goods, and services benefiting employees, see 1.61-16.

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As we publish these proposed regulations, the tax writing committees of Congress are embarking on a reconsideration of a substantial segment of the tax law. In that effort, Congress, too, may wish to focus on certain aspects of the proposals and, perhaps, to modify the results proposed. While we believe Treasury has authority to deal with these issues through the adoption of regulations, Treasury would not object to workable legislative changes or expansion. The lines drawn in the proposals fall in gray areas and could well be different in a number of respects and still be sound.

The following summary and discussion are published in the hope that an explanation of the considerations underlying the precedents and the proposed rules will better focus public discussion.

I. Summary

General rules.

(1) Employees do not have taxable compensation where the benefit is on hand anyway, it costs nothing additional to provide it, and it is not limited to top executives.

(2) If a benefit does not qualify under (1), then its tax status is determined by looking at all of the facts and circumstances. Among the factors indicating whether or not a benefit is not taxable are:

- Whether the employer incurs a substantial and identifiable cost.
- Whether the expense is clearly related to the employer's business.
- Whether the benefit is exact reimbursement of an unusually large personal expense incurred by the employee on account of the employer's business.
- Whether the benefit is limited to top executives.

(3) Small amounts are not taxed.

Some examples illustrating the general rules.

(1) Airline employees and travel agents are not taxed on travel passes.

(2) Store employees are not taxed on merchandise discounts.

(3) An interior decorator is not taxed on the purchase of furniture for personal use at wholesale prices.

(4) Use of a business jet is not taxed where employees and their guests use otherwise empty seats. But a flight made only for personal entertainment purposes of an executive and spouse is taxed.

(5) Benefits to insure safety are not taxed. Examples are taxi fare home at night from a plant in an unsafe area and bodyguards after a threat by terrorists.

(6) Cars are not taxed to the extent required for the job. A specific example deals with and exempts transportation provided the President, and those cabinet officers, ambassadors, and consuls, for whom Congress has impliedly recognized that transportation to and from home is "official." Officials not covered by Congressional authorization are taxable on the personal use of government cars, including commuting between their homes and offices. Another example covers officials such as fire chiefs, who must be on duty at all hours.

Also not taxed are cars for outside salesmen who pay for gas for personal use.

Cars are not taxed where they are provided to take an executive from his office to business appointments, but there is tax to the extent the car is used for commuting. The use of "demonstrators" by employees of an auto agency who do not primarily use the car for business is taxed.

(7) Free parking spaces in a company garage are not taxed under most circumstances.

(8) Having one's secretary type a personal letter is not taxed.

(9) Payment of bar association dues by a law firm is not taxed.

(10) Periodic social functions of a firm are not taxed to employees.

(11) Tuition-free American-style schools operated for overseas employees are not taxed to the employee.

(12) The use of a free company day care center results in income that may be offset by a deduction expressly allowed by statute.

II. Discussion.

The taxation of economic benefits which individuals receive in kind has been troublesome since our income tax system began in 1913. Fringe benefits have proliferated as our industries and working conditions have grown ever more complex. Generalized principles have been slow to develop, and there has inevitably been nonuniformity of treatment of different taxpayers in similar situations.

The statutory definition of "gross income"--like most broad and sweeping definitions--fails to provide certainty in a multitude of individual situations. As a result, interpreting and applying the definition have become major tasks for the courts and administrative officials. As in the case of such other broad phrases as "due process" and "equal protection," a substantial gloss on the statutory language has evolved and become a part of the law.

Our Anglo-American system of law rests firmly on precedent, but as precedents amass, it has been the role of jurists and scholars to rationalize the accumulation and to seek the threads of underlying principle. In the process, some precedents are discarded as defective; others are recognized as correct conclusions, but for reasons different from those advanced at the time; and the entire process is subject to constant revision for, as Cardozo said, "If we were to state the law today as well as human minds can state it, new problems, arising almost overnight, would encumber the ground again."* This constant and dynamic search for organizing principles is the genius of our legal system. The proposed regulations represent a limited effort to apply that process to a narrow but vexing area of the tax law, in which more than half a century of judicial and administrative precedent have produced considerable confusion and uncertainty.

There are no general principles which will accommodate every judicial decision and administrative action that has occurred in the last 62 years, for a number of those decisions and actions are inconsistent with each other and with the general lines of precedent that have developed. The attempt has been to discover those organizing principles which best conform to the body of precedent and which themselves represent sound and equitable policies.

The proposals are presented with the awareness that the principles expressed are not all-encompassing and that the principles will themselves require modification in time, for it is no doubt

*Cardozo, "The Growth of the Law" (1924), p. 19. These lectures, addressed in part to the then current effort of the American Law Institute to "restate" the law in a number of areas, contain a discussion of this process.

necessary to a sound and practical income tax that the content of "income" should remain somewhat fluid, so that the application of the tax can keep pace with changing conditions.*

It is intended that the proposed regulations be viewed as broad principles suggesting a rationale and path to a reasonable solutions in particular cases. They are essentially different from those highly technical provisions of the Code and regulations intended to deal definitively with all aspects of a narrow problem. They are not to be construed or applied in a narrow and literal fashion to exclude every situation which fails to be described by the precise language employed. "As in other sciences, so in politics, it is impossible that all things should be precisely set down in writing; for enactments must be universal, but actions are concerned with particulars."**

The Definition of "Income."

The Internal Revenue Code states simply that

> Gross income means all income from whatever source derived....

As a definition, that language has an obvious defect, for to say that gross income includes income still fails to tell us what income is. The statutory language should be viewed rather as broad authorization to reach such items as may be appropriate, in the context of our overall system. It is clearly broad enough to encompass almost any economic benefit, but it is equally clear that it has not been construed to do so. To the uninitiated layman the language may appear sufficient. For perhaps the great majority of taxpayers, no ambiguities exist. Income from wages and salaries, dividends, interest from savings deposits, and the like are universally regarded as income under any definition, and for the majority that appears to take care of all of the problems. But students of the tax law know better, and most of the hundreds of pages of the Internal Revenue Code were written to help draw the lines between what will and what will not be treated as income.

*Cf. Surrey and Warren, Federal Income Taxation, 1972, vol. 1, p. 115

**Aristotle, Politics, Book II, quoted by Cardozo, op. cit.

Even for theoretical economists, there has been great confusion as to exactly what constitutes income. The classic work on the subject is Professor Simons', Personal Income Taxation (1938), which comments on the task of defining "income":

> Many writers have undertaken to formulate definitions, and with the most curious results. Whereas the word is widely used in discussions of justice in taxation and without evident confusion, the greatest variety and dissimilarity appear, as to both content and phraseology, in the actual definitions proposed by particular writers. The consistent recourse to definition in terms which are themselves undefinable (or undefined or equally ambiguous) testifies eloquently to the underlying confusion.**

Professor Simons' own theoretical definition of income (generally known as the Haig-Simons definition) has become the definition perhaps most widely accepted among economists.

However, the theoretical definitions of income have not been used for the practical purpose of assessing taxes, except as a frame of reference against which to judge the existing system. Thus, Professor Simons, himself, says:

> If one accepts our definition of income, one may be surprised that it has ever been proposed seriously as a basis for taxation... One may remark at the outset that no government has ever undertaken to graduate taxes really on the basis of personal income. The actual tax base is merely something calculated according to more or less carefully defined methods; and these methods may be regarded as designed to give results which are in most instances something like true personal income. Indeed, every income tax is, and probably must be, based largely on presumptions.... Tax laws do not really define income but merely set up rules as to what must be included and what may be deducted; and such rules by no means define income because they are neither exhaustive nor logically coherent.... Indeed, if there be any excuse for a treatise like this, it must lie in the importance of maintaining some broad--and perhaps quite "impractical"--conception in terms of which existing and proposed practices in income taxation may be examined, tested, and criticized.*

*Simons, op. cit., pp. 103-106.

**pp. 41-42

It is sometimes asserted simply that income includes any "economic benefit" received, and "economic benefit" is the germ of the more elegant theoretical definition which Professor Simons developed. But the concept of "economic benefit" does not explain 60 years of actual experience. Nor does it conform to public understanding and custom. The fact that economic logic and theory are separated by a substantial gap from the legal rules that have actually developed is neither unique nor undesirable, for as Justice Holmes said:

> The life of the law has not been logic: it has been experience. The felt necessities of the time, the prevalent moral and political theories, intuitions of public policy, avowed or unconscious, even the prejudices which judges share with their fellow-men, have had a good deal more to do than the syllogism in determining the rules by which men should be governed. *

A few examples will suffice to show that the concept of "economic benefit" does not explain the law:

(1) Social security, welfare, and unemployment compensation payments are not taxable as income under our system. There is no section of the Code which so provides. The exclusion grew up as a result of administrative action, undoubtedly in response to what Justice Holmes called "the felt necessities of the times."

(2) Persons who purchase life insurance pay premiums which are in effect invested on their behalf. Income from those investments is not taxed to the purchaser, notwithstanding that they clearly represent economic benefits.

(3) Taxpayers who invest money in the purchase of a house realize income in kind consisting of the right to live in the house. That income is not taxed under our tax system although there is nothing in the Code which expressly excludes it. (Such income has been taxed at various times under other systems.) A taxpayer who invests the same money in stocks or bonds with the intention of using the income to rent a house, on the other hand, must pay tax on the income from the stocks and bonds, which reduces the amount available to pay rent.

(4) Meals and lodging provided to taxpayers by their employers clearly constitute an economic benefit but are not taxable to the extent they are provided "for the convenience of the employer." This exclusion was initiated early by administrative ruling and existed for 40 years on that basis. In 1954, it was written into the Internal Revenue Code in somewhat modified fashion.

*Holmes, The Common Law, p. 1.

(5) Entertainment, meals, travel, and lodging received in a business context are in large part untaxed under current statutory provisions. At the higher levels of today's business communities, individuals' personal and business lives tend to meld into an indistinguishable whole, and many persons spend much of their lives in such activities. It is a legitimate conjecture whether the restaurant and resort industries would be decimated without these provisions.

(6) Large elaborate offices for executives, attended with employees and accompanied by working conditions designed to provide every creature comfort and convenience are commonplace and obviously constitute an economic benefit which has both personal and business aspects. Those benefits are not taxed.

(7) A great variety of miscellaneous benefits provided by employers have been held administratively not to constitute income. Examples include group-term life insurance and compensation for tornado damage.

None of the economic benefits in the foregoing examples was originally excluded from income because of a clear and specific statutory exclusion. Nor were they excluded because of insurmountable administrative considerations. For the billions of dollars of additional revenues which could be obtained from these sources, it would obviously be possible to devise workable administrative rules.

The results are better explained by what Justice Holmes called "the prevalent moral and political theories," than by strict theory. The attitude of labor unions on some of these items is interesting as an expression of one view as to "prevalent theories." Justice Goldberg speaking in his earlier role as General Counsel, CIO, took the following position:

> The line between [compensation and conditions of employment] is, perhaps, not susceptible of precise definition. The reason it is not is because the line is really an institutional and sociological one. It depends very much on what our current conception of the relative responsibilities of employer and employee happen to be. The question is whether the benefit in question is one which we regard as a proper responsibility which employers should supply for employees as a condition of employment wholly apart from the compensation for their work. And the answers to that question vary from time to time.

> To the extent that benefits are usually or normally provided by employers, even though they may involve a saving to an employee over alternative methods of providing this facility by himself, then, to that extent the provision of such benefits should not be considered as compensation to the employee but as the provision of improved conditions of work.

Applying these views to employer-provided insurance, he concluded the benefit to be nontaxable, stating:

> How about insurance? With this principle in mind, are the insurance programs negotiated by unions just a disguised way of paying compensation, or are they offered on a service basis as a condition of employment? Clearly the latter.*

The Internal Revenue Code as presently interpreted by the regulations and the better reasoned case law requires more than a finding that an employee enjoyed an economic benefit. Section 61(a)(1) of the Code speaks of "compensation <u>for</u> services." The regulations condition taxability upon finding a situation where "services are <u>paid for</u> other than in money." Treas. Reg. Sec. 1.61-2(d)(1). And, in the Supreme Court's words, section 61 "is broad enough to include in taxable income any economic or financial benefit conferred on the employee <u>as compensation</u>." <u>Comm'r v. Smith</u>, 324 U.S. 177, 181 (1945) (emphasis added). The notion of a bargain between employer and employee--that there must be a payment <u>in exchange for</u> services--has been added as an essential element for the taxation of compensation, including fringe benefits.

<u>Policy Considerations.</u>

In sum, there is no easy or entirely satisfactory answer as to how all economic benefits should be taxed or not taxed. Professor Simons says with respect to income in kind:

> There is here an essential and insuperable difficulty, even in principle. The problem...certainly is not amenable to reasonable solution on the basis of simple rules which could be administered by revenue agents.... At all events, let it be recognized that one faces here one of the real imponderables of income definition.**

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*Quoted in Surrey and Warren, op. cit., p. 139

** Simons, op. cit., pp. 123-24

The principles governing the taxation of fringe benefits inescapably involve a large degree of judgment not reducible to a single formulistic test or tests. Simple mechanical formulas are not possible. In reaching the judgments embodied in the proposed regulations, the following policy considerations were taken into account.

(1) Present practices in general are codified. Sixty-two years of experience must be given great weight. The practices which have developed provide a reasonable and pragmatic guide to which economic benefits are appropriate for taxation. The general rules of the proposed regulations excluding benefits inherent in the employer's business under certain circumstances deal with a category of clear economic benefits that have not been generally taxed and which, we believe, generally should not be taxed. The first eight factors set out in the proposed regulations are distillations of principles from experience and are applications of the ninth factor, which states that an item is not taxed if it is not thought of as constituting compensation paid for services. While these factors necessarily lack particularity in many respects, they are much more specific than the statutory language and far preferable to some simplistic theory (such as "economic benefit") that is at odds with our national conception of what realistically constitutes taxable compensation for services. In some instances, where precedent was slim, or unconvincing, questions have been resolved in favor of taxpayers. In other cases, rules were resolved against taxpayers even though good arguments would be made for a contrary result. For example, in the case of executive transportation furnished by employers, it might arguably have been reasonable to hold that private transportation was not taxable to the extent it was furnished to permit the executive to perform work while commuting. However, the line of precedent with respect to commuting expense is so extensive and so firmly established that such a rule did not appear to be an administrative option.

(2) Statutory authority is broad but not mandatorily all-encompassing. The statutory definition of income is very broad. That broad scope provides the residual authority to deal with new forms of compensation and other income generally as they develop without having to amend the statute each time. Inherent in that authority is the flexibility and, indeed, the necessity to distinguish between economic benefits which should be taxed and those which should not. The draft regulations do not extend the reach of the income tax to fringe benefits so far as they could legally, but only so far as they may practically.

(3) Equity among taxpayers. As indicated earlier, many high-income persons, particularly those whose business and personal lives are in effect melded, enjoy major economic benefits in the form of meals, lodging, travel, and entertainment, much of which goes untaxed under rules that are statutory. When this is occurring in

so widespread a fashion, it seems particularly unfair, for example, to tax ordinary airline employees for traveling in otherwise empty seats or to tax retail clerks for discounts received on goods purchased from their employers.

If all taxpayers had fringe benefits or other benefits in kind and those benefits were roughly in proportion to their other income, then the uniform exclusion of all such benefits from tax would be as equitable as tax matters are likely ever to be and would probably contribute to a more efficient and effective tax system, as it would avoid the valuation and withholding problems discussed below. But the non-uniform exclusion of such benefits--exclusions for some but not others--would be clearly inequitable. Thus, in drafting the proposed regulations a special effort was made to be sure that ordinary taxpayers in the lower and middle income classes were treated in a fashion as generous as that which very high income taxpayers already enjoy, subject to the overriding principle that the integrity of the system must be protected.

(4) Valuation problems. Valuation of benefits in kind is extremely difficult in many, if not most cases, and the necessity for valuation vastly complicates the tax law. What is the value to a stewardess of riding in an otherwise empty seat? In most cases the privilege would not be worth to her the retail price of a ticket, i.e., she would not make the trip if she had to pay for it. Thus, in Reginald Turner, 13 T.C.M. 462 (1954), the court dealt with taxpayers who had won a free trip to South America and stated:

> The winning of the tickets did not provide them with something which they needed in the ordinary course of their lives and for which they would have made an expenditure in any event, but merely gave them an opportunity to enjoy a luxury otherwise beyond their means. Their value to the petitioners was not equal to their retail cost.

Similarly, how would one tax free or subsidized medical and recreational services and facilities for employees? Or company cafeteria meals provided at prices less than the prices prevailing in comparable restaurants? Valuation of such items comes very close to valuing working conditions as such, an undertaking that would encounter almost insurmountable difficulties.* In general, it is desirable to avoid the complications of taxing such items, unless their omission constitutes a serious threat to the tax base or creates inequities that are significant in the context of the system as a whole.

*See Vickrey, Agenda for Progressive Taxation (1947), p. 123.

(5) Withholding considerations. Our system relies on wage withholding to collect most of the personal income tax. In 1972, $91 billion of $110 billion personal income tax collected was withheld from wages. The system works well only because almost all of the tax is collected automatically on cash payments. Withholding involves only easy arithmetic applied to unambiguous dollar amounts. Audit of withheld amounts is easy. If we should attempt to include in the withholding base every economic benefit enjoyed by great numbers of employees, the operation of the system would be seriously jeopardized. Taxpayers would have many ingenious theories to justify exclusion from gross income and, when taxed, there would be an infinity of valuation problems, of the kind referred to above.

This reliance on a simple self-executing system to collect most income tax leads to the policy judgment that, as a general rule, only those fringe benefit cases which threaten the integrity of the basic system should be taxed. Thus, the proposed regulations reach private junkets on corporate aircraft, personal use of company cars (and drivers) by executives, and discriminatory use of company facilities generally. While the proposed regulations reach these obvious cases, they do not involve the esoteric problems of taxing, and thus valuing, for example, the right to occupy an otherwise empty seat on a commercial flight. Employee discounts and free travel for airline flight attendants do not threaten the integrity of our income tax system. There is a great risk that trying to tax these and similar items would threaten the continued success of our self-assessment system.

(6) Retroactivity. In some cases, notwithstanding that existing precedent might have supported an assertion of taxability, it is in fact the case that tax has not been generally collected. This is true, for example, in the case of automobiles and automobile transportation provided in a variety of situations. In such cases, it seems unfair to impose heavy tax liabilities retroactively on unsuspecting laymen. Thus, in a few instances, the proposed regulations would exercise the statutory discretion given by the Code to the Secretary to apply administrative rules on a nonretroactive basis.

Conclusion.

The proposed regulations are published for discussion as an attempt to provide guidelines that will afford greater degrees of certainty, uniformity, and fairness in an area which has become steadily more significant. They will not provide simple formulas which can be mechanically applied by revenue agents. That is not a defect, as present law provides no such formula either, except insofar as the broad sweep of the existing statutory language may in practicality give a revenue agent the personal discretion to include anything and everything that appears to result in economic benefit to the employee--an obviously unsatisfactory state of affairs. There is no way to avoid judgments in this difficult area, and we can only work to insure that those judgments are as sound and uniform as possible. The draft regulations are published in the hope that they will provide the basis for prescribing better guidelines to that end.

Office of the
Assistant Secretary for Tax Policy
September 2, 1975

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Office of the
Assistant Secretary for Tax Policy
September 2, 1975

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 4:00 P.M. September 3, 1975

TREASURY OFFERS $1.5 BILLION OF TREASURY BILLS

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $1,500,000,000, or thereabouts, to be issued September 5, 1975, as follows:

13-day bills (to maturity date) in the amount of $800,000,000, or thereabouts, representing an additional amount of bills dated March 20, 1975, maturing September 18, 1975 (CUSIP No. 912793 XP6), and

20-day bills (to maturity date) in the amount of $700,000,000, or thereabouts, representing an additional amount of bills dated March 27, 1975, maturing September 25, 1975 (CUSIP No. 912793 XQ4).

The bills will be issued on a discount basis under competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received for each issue only at the Federal Reserve Bank of New York up to noon, Eastern Daylight Saving time, Thursday, September 4, 1975. Wire and telephone tenders may be received at the discretion of the Federal Reserve Bank of New York. Each tender for each issue must be for a minimum of $10,000,000. Tenders over $10,000,000 must be in multiples of $1,000,000. The price on tenders offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Settlement for accepted tenders in accordance with the bids must be made at the Federal Reserve Bank of New York on September 5, 1975, in immediately available funds.

(OVER)

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Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 3, 1975

TREASURY FINANCING ANNOUNCEMENT

In order to meet its financing needs through the low point of its operating cash balance in mid-September, the Treasury will sell up to $0.8 billion of an additional amount of the bills maturing September 18, 1975, and up to $0.7 billion of an additional amount of the bills maturing September 25, 1975. These 13- and 20-day bills will be auctioned only through the Federal Reserve Bank of New York on September 4 for payment on September 5. The minimum acceptable tender for each of these issues will be $10 million, with increments of $1 million above that minimum.

The need for a short-term cash management instrument of this type has substantially increased over the past several years and is a result of the growing concentration of large payments in the first several working days of each month. This in turn has led to the substantial increase in the variability of the Treasury's cash balance, thereby requiring that the Treasury either maintain abnormally high balances to accommodate the intra-monthly low point in the balance or to borrow directly from the Federal Reserve. The resulting variability of the Treasury's balance at the Federal Reserve Bank affects the reserves of the banking system in a manner that often requires the Federal Reserve to undertake large open market operations to offset this reserve impact. These operations have at times been unsettling to the market. Use of short-dated bills of this type, first offered by the Treasury in August of this year, represents a new means for the maintenance of orderly markets. As such, this offering serves much the same purpose as Tax Anticipation Bills which have been offered from time to time in the past to provide financing over a low point in the Treasury's cash balance prior to a major tax date. Unlike the use of Tax Anticipation Bills, however, the sale of these bills carries no implication of a future paydown. However, depending upon cash requirements, the Treasury may choose to either increase or decrease the amounts to be offered when these bills mature.

These short-dated bills have been referred to as "Federal Funds Bills." The minimum $10 million tender size and the offering solely through the Federal Reserve Bank of New York simplify the auction and permits these bills to be sold on much shorter notice than is the case with regular bill auctions. Investors outside of New York may subscribe through correspondent banks or dealers in New York or directly with the Federal Reserve Bank of New York by wire.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 4, 1975

RESULTS OF AUCTION OF $1.5 BILLION
OF 13-DAY AND 20-DAY TREASURY BILLS

The Treasury has accepted $0.8 billion of the $3.0 billion of tenders received for the 13-day Treasury bills and $0.7 billion of the $3.2 billion of tenders received for the 20-day Treasury bills, to be issued September 5, 1975, auctioned today. The range of accepted bids was as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-day bills maturing September 18, 1975			20-day bills maturing September 25, 1975		
	Price	Discount Rate	Investment Rate	Price	Discount Rate	Investment Rate
High	99.782	6.037%	6.15%	99.664	6.048%	6.17%
Low	99.775	6.231%	6.35%	99.656	6.192%	6.32%
Average	99.777	6.175%	6.29%	99.658	6.156%	6.28%

Tenders at the low price for the 13-day bills were allotted 95%.
Tenders at the low price for the 20-day bills were allotted 90%.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 4, 1975

Contact: H.C. Shelley
964-8256

TREASURY ANNOUNCES ACTION ON ANTIDUMPING INVESTIGATION

Assistant Secretary of the Treasury, David R. Macdonald, announced today a final determination that certain non-powered hand tools from Japan (chisels, punches, vises, c-clamps, hammers and sledges, and battery service tools) were being sold at less than fair value within the meaning of the Antidumping Act of 1921, as amended. The U.S. International Trade Commission has been advised of this decision and must now determine whether such imports are injuring a U.S. industry.

Five Japanese firms, Imoto Hamono Co., Ltd., Kyoto Tool Co., Ltd. (hammers), Hiroto Tekko K.K. (sledges), Tashiro Seisakusho, and Japan Export Brush Co. (battery servicing tools), were found to have had no less than fair value sales during the investigatory period and have been excluded from the determination.

Mr. Macdonald also announced that the investigation with respect to micrometers, vernier calipers, and dial indicators had been discontinued. Margins of sales at less than fair value for these categories of tools were minimal and assurances were received from the Japanese manufacturers that future sales would be at fair value. Imports of these tools will be monitored for a two-year period by the U.S. Customs Service.

A withholding of appraisement notice and a tentative discontinuance of the investigation for the respective categories of tools was published in the Federal Register of June 5, 1975. Interested persons were given the opportunity to present their views on the investigations.

Notice of these final actions will be published in the Federal Register of September 5, 1975.

During calendar year 1974, imports of these non-powered hand tools from Japan were valued at approximately $11 million.

June 30, 1975

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH

(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTANDING OF AMOUNT ISSUED
MATURED				
Series A-1935 thru D-1941	5003	4999	4	.08
Series F and G-1941 thru 1952	29521	29502	19	.06
Series J and K-1952 thru 1957	3754	3749	5	.13
UNMATURED				
Series E 3/ :				
1941	1944	1768	176	9.05
1942	8580	7786	794	9.25
1943	13794	12537	1257	9.11
1944	16118	14571	1547	9.60
1945	12712	11348	1364	12.02
1946	5808	5046	762	13.12
1947	5549	4697	852	15.35
1948	5761	4802	959	16.65
1949	5726	4698	1028	17.95
1950	5032	4077	955	18.98
1951	4353	3526	827	19.00
1952	4564	3676	889	19.48
1953	5242	4144	1098	20.95
1954	5360	4179	1181	22.03
1955	5595	4318	1277	22.82
1956	5402	4145	1257	23.27
1957	5099	3872	1227	24.06
1958	4999	3709	1290	25.81
1959	4695	3452	1242	25.45
1960	4732	3393	1339	28.30
1961	4838	3360	1478	30.55
1962	4719	3204	1515	32.10
1963	5325	3444	1881	35.32
1964	5189	3373	1815	34.98
1965	5082	3281	1801	35.44
1966	5509	3439	2071	37.59
1967	5464	3374	2089	38.23
1968	5169	3134	2034	39.36
1969	4868	2857	2011	41.31
1970	5102	2785	2318	45.43
1971	5889	2844	3045	51.71
1972	6501	2774	3727	57.33
1973	6433	2523	3910	60.78
1974	6501	1903	4597	70.71
1975	2047	191	1856	90.67
Unclassified	807	660	147	18.22
Total Series E	210,506	152890	57616	27.37
Series H (1952 thru May, 1959) 3/	5484	4194	1290	23.52
H (June, 1959 thru 1975)	10351	3775	6574	63.51
Total Series H	15835	7969	7864	49.66
Total Series E and H	226341	160859	65480	28.93
All Series — Total matured	38278	38250	28	.07
All Series — Total unmatured	226342	160859	65480	28.93
All Series — Grand Total	264620	199109	65508	24.76

Include accrued discount.
Current redemption value.
option of owner bonds may be held and will earn interest for additional periods after original maturity dates.

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The Absorptive Capacity
Of The OPEC Countries

September 5, 1975

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The Absorptive Capacity of OPEC Countries

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Executive Summary

1. The sharp increases in the price of oil in late 1973 and early 1974 and the consequent jump in the revenues of the oil producing countries have generated considerable interest in the question of the absorptive capacity of these countries and the extent to which they will be able to utilize their oil revenues for domestic investment and consumption. The question is central to the issues of real resource transfer, recycling and to the impact of these issues on the domestic economic objectives of the consumer countries.

2. These issues have resulted in a number of efforts to gauge the size and structure of the evolving payments position of the OPEC countries. Little effort, however, has been devoted to analyzing the capacity of individual OPEC countries to utilize domestically (or absorb) oil revenues despite large differences in the economic structure of these countries. Most of the forecasts have been of aggregate imports for OPEC as a whole. A few have attempted to separate OPEC into two groups -- high absorbers and low absorbers and have projected imports for each of these groupings. This study investigates factors which will bear heavily on each country's import levels over the next decade.

3. During the past year and a half, oil revenues have trickled through broad segments of almost all of the OPEC economies, in consequence of sharply rising government expenditures. In most cases public outlays have increased more rapidly than imports and this pattern has been a major factor in intensifying domestic price pressures. There is considerably greater scope for further massive redistribution of oil revenues in OPEC countries, but an effort in this direction is not a prerequisite for sustained high levels of imports. The extent to which OPEC revenues will be redistributed, however, will affect the mix of OPEC imports.

4. The OPEC countries are beginning to face major problems in further expanding their import levels. These problems have become increasingly apparent in the aftermath of the sharp increase in OPEC imports since 1973 which has strained certain facilities in a number of countries to their limits. Most OPEC countries have recognized these constraints, however, and have in train policies and programs to mitigate or overcome them in the framework of their

domestic development plans. The most serious of these constraints are in transportation and manpower. Foreign exchange availabilities are already limiting the import capability of one OPEC country and several others are expected to experience a similar constraint within the next few years.

5. Infrastructure expenditures now have the highest priority in most of the OPEC countries, but many OPEC governments have plans for diversification into industrial activities and establishment of broader agricultural bases. The prospects for successful diversification are uneven and for some countries further development of the energy sector may be the most profitable avenue. Many of the OPEC countries have limited non-hydrocarbon resources and in addition small domestic markets will severely limit the possibility of achieving economies of scale without access to broader regional or world outlets. This access in turn will depend on comparative costs which have not yet been sorted out for many of the plans and projects under consideration. Duplication of effort in some areas which could lead to oversupply problems is also likely to occur. The completion of investment projects in industry and agriculture will frequently result in either increased exports or import substitution, so that the absorptive capacity of these countries will change. The direction of this change will vary from country to country.

6. The Gulf States are least likely to be able to utilize their oil revenues domestically during the next five years, in a reasonably efficient manner. But perhaps only Saudi Arabia and Kuwait will sustain large current account surpluses into the 1980's. On the whole we would expect to see aggregate OPEC imports grow from $37 billion in 1974 to $89 billion in 1980 and to $133 billion by 1985, (all in 1974 prices). This would mean a continuous decline in the annual increase in real OPEC imports from 45 percent in 1974 and 33 percent in 1975, to an average increase of 16 percent annually through the end of this decade, and then to an average increase of only 8 percent from 1980 to 1985. Employing the OECD's forecasts of the growth in OPEC's oil earnings, these import levels would imply an OPEC current account surplus of about $13 billion in 1980, and a cumulative surplus through 1980 of $195 billion, both in 1974 dollars.

7. In comparison, the aggregate OPEC investible surplus in 1974 is estimated at $59 billion which we anticipate will decline this year to a surplus of about $46 billion.

Saudi Arabia and Iran, which accounted for more than half of the aggregate OPEC surplus last year, will have an even more dominant position in 1975, despite extremely large increases in their import levels.

8. The issue of absorptive capacity -- through its determination of how rapidly the transfer of real resources from the consuming to the producing countries will proceed -- relates to several key goals which the industrial countries would seem to have in their relations with OPEC nations. In particular absorptive capacity raises questions with respect to the compatibility of the policies and objectives of the two groups of countries and efforts to ensure that current and prospective oil earnings have minimum disruptive effects on the Western economy and its growth prospects.

9. In the debate that has followed the large and abrupt change in oil prices, there appears to have emerged a preference in many industrial countries for a continued rapid increase in OPEC imports, i.e., a continued rapid transfer of real resources. The preference for present versus future transfers, however, involves a number of complex considerations which have not previously been adequately explored and some of the key arguments in favor of one option or the other fail to hold up under intensive scrunity. Some of the more widely discussed factors bearing on this issue include the effects on: the total level of transfers that would result; the capacity to service OPEC claims; the problem of recycling and cyclical conditions in the major consumer countries.

10. It is far from certain that delayed transfers of real resources will mean a larger total transfer over time. As long as general price movements are as large as pecuniary returns on OPEC investment then the size of the transfer will be unchanged. But recent history indicates a less than complete interest rate accommodation to the rate of inflation.

11. On the other hand, OPEC investment in the consuming countries will not necessarily permit a greater increase in their capacity to service OPEC claims, since export income not only also generates investment capital, but equally important, it increases the demand for such capital through fuller utilization of existing capacity.

12. It is probably impossible for either OPEC governments or OECD governments to develop a trading pattern which will always complement the domestic economic policies of the exporting country, nor would this appear to be necessary.

Export markets cannot predictably be turned on and off with ease and foreign trade has seldom been used successfully as a major counter-cyclical device. On the other hand domestic authorities are able to create or extinguish domestic demand with greater ease, particularly since policy shifts to change overall demand and supply conditions must be taken quickly. Finally, from a micro viewpoint it is not practical to assume that OPEC countries are ready or able to confine their purchases to the more severely depressed sectors of the economy during periods of economic slowdown.

13. Similarly it should not be assumed that the main solution to short-term adjustments in the international payments position of the major consuming countries, either individually or collectively would lie in a sharp acceleration of exports. The ability to increase exports depends upon the pace and manner of implementation of the highly diverse and uncertain plans of the OPEC countries. As a general proposition the high degree of mobility of capital makes short term adjustments through financial flows far more practical than through changes in current transactions. Previous fears that the market mechanism would be incapable of handling such large financial adjustments have proved to be largely unfounded.

14. There is likely to be a significant relationship between the absorption rate of the OPEC countries and their policies with respect to oil production and prices. But the manner in which these relationships will evolve is highly uncertain at the present time. To date the OPEC countries have been able to reconcile their respective revenue availabilities and requirements through selected changes in both prices and production. Whether countries which have excess revenues will be prepared to continue to make adjustments for the sake of countries facing revenue constraints remains to be seen. Similarly, it is not clear whether the success of the development efforts of OPEC governments which would graphically demonstrate the utility of their oil revenues, would encourage them to maintain high revenue levels through higher prices or higher production. Conversely, the failure to utilize OPEC revenues in a productive way could prompt either conservation efforts or lower prices.

15. Regardless of the preference that individual oil consuming countries may have with respect to the timing of real resource transfers to OPEC countries, a number of constraints will intervene which will make it difficult to carry out major policies designed to achieve the preferred result. In the first place, commercial exchanges of the oil

consuming countries are heavily dominated by the activities of private firms who cannot easily be convinced to undertake unproductive ventures, nor sacrifice productive undertakings against the interests of their shareholders and communities. Furthermore, policy decisions which would attempt to channel oil revenues in a particular way could lead to preferential trade and investment policies which would compromise the economic liberalization that has been so painstakingly established in the post-war period.

16. Governments must guard against a tendency toward a competitive race among them for OPEC markets and investment capital, through subsidies, guarantees or the like. Otherwise the total cost of their oil burden could easily increase. Moreover, they must recognize that countries which rely heavily on specific foreign markets are no less vulnerable to them than are countries which rely on specific sources of oil.

17. We would conclude that the appropriate policy framework in the OECD countries for the transfer of real resources to OPEC governments would be one which would maximize the play of market forces. Not only is this likely to prove necessary for practical reasons, but advantageous from the viewpoint of maximum efficiency and world income.

Introduction

The sharp increase in the price of internationally traded oil has posed complex problems to both producing and consuming countries which both are now beginning to sort out. The consuming countries are seeking to find ways of minimizing the adverse impact on their economies, while the producing countries are attempting to sustain high oil prices and to utilize their increased oil receipts in a productive manner.

The policy issues which have evolved from the sharp redistribution of world income to the oil producing countries have directed considerable attention to the absorptive capacity of these oil producing countries. It is central to the issue of real resource transfer and to the associated issues of recycling and consistency with the domestic economic objectives of the consumer countries. Finally, it is relevant to the industrialization efforts of the OPEC countries and consumer country response. These issues have prompted a number of analysts to investigate the evolving size and structure of OPEC revenues and expenditures in the years ahead.

The analysis behind most of the forecasts of the OPEC current account position which have appeared to date has focused mainly on the outlook for oil revenues. Far less effort has been devoted to an analysis of the capacity of each of the OPEC countries to utilize (or absorb) oil revenues despite their distinct differences. Some forecasts have applied a common growth rate in forecasting imports for the OPEC countries. Others have separated OPEC members into a high absorber group and a low absorber group, and have applied separate growth rates to each group.

As a step toward further refinement of forecasts of the OPEC payments position, this study investigates factors in each of the OPEC countries which will bear heavily on their respective import levels over the next decade. Rough estimates of each country's imports in 1980 and 1985 have been derived from these analyses. The study benefits from the considerable work that has been done in estimating oil revenues, to identify possible cases of revenue constraints.

It should be emphasized that significant problems and uncertainties remain in attempting to analyze OPEC's payments position. Most notable are a paucity of hard data and the somewhat related problem of a still less than perfect understanding in the industrial world of the evolving structure of each OPEC economy.

The Absorptive Capacity of the OPEC Countries

Although the absorptive capacity of the OPEC countries can be measured by the current level of their imports relative to their current oil revenues, this measurement is not indicative of future absorptive capability. Countries which will have mounted large current account surpluses in 1974-75 may nevertheless eventually be able to employ the bulk of their current oil earnings for domestic purposes. After a time most of them may be able to utilize even their accumulated wealth domestically, especially those countries with major infrastructure requirements and/or moderately large population bases.

In order to accelerate the utilization of their new wealth and to do so in the most efficient manner, OPEC countries have been relying heavily on foreign contractors and consultants in implementing their investment plans. Imports of consumer goods continue to be dominated by government imports, particularly of agricultural commodities and foodstuffs. Changes in this trend will depend upon the increase in disposable income in the hands of individuals which more than ever will depend upon the willingness and ability of OPEC governments to redistribute oil revenues, directly and/or indirectly. With respect to the "non-commercial" category of imports, several OPEC countries, particularly in the Middle East, have exhibited a strong desire to import military equipment. On the other hand, "prestige" expenditures have not been pronounced to date.

Developments in the aftermath of the abrupt and massive increases in petroleum prices have presented OPEC countries with problems as well as opportunities. In most cases they have been unable to absorb fully the resulting large infusions of foreign exchange. Oil revenues have trickled through broad segments of the economy both directly through government transfer programs and indirectly through the demand for services associated with government investment and consumption. Increases in government expenditures have generally exceeded increases in imports and domestic price pressures have intensified.

The effects of oil revenues on the private sectors in the OPEC countries and on their propensity to consume pose a complex situation which is not easily understood. Strengthening the private sector is not a goal in all of the OPEC countries. Nor is it clear to what extent income redistribution can be accomplished through traditional fiscal policies on the income and expenditure side. A major redistribution of oil revenues within OPEC economies, however, is not a prerequisite for sustained high levels of imports, but the extent to which this is accomplished will have an important bearing on the import mix. Direct government expenditures will mean continued emphasis on imports for infrastructure development, and other forms of investment, in addition to food and in some cases military imports. A major redistribution of income into private hands, will result in imports of a broader range of goods, particularly for consumption.

Most, but not all, OPEC countries have established development plans that provide a general framework for future development but their capacity to execute these plans differs. In some countries, but not all, the decision-making process is highly centralized and commitments can be taken expeditiously. As noted earlier, some countries rely heavily on foreign advisors and contractors to expedite development spending.

As the following country overview papers indicate, a major constraint in the development efforts of the OPEC countries is insufficient skilled manpower and managerial talent which is characteristic of both the public and private sectors in most of the OPEC countries. Inadequate ports and transport facilities are often a constraint to an immediate increase in imports (representing a source of import demand as well), but this problem is generally not insurmountable. Private sectors are typically small and financial and other institutions, rudimentary. Technology and entrepreneurial talent will have to be imported. In a few countries, there are political, social and/or cultural restraints that will have a significant effect on the pace and direction of government expenditure patterns.

Almost all OPEC countries have recognized the importance of emphasizing the building blocks of a modern economy, by concentrating on the development of modern and adequate infrastructure. Some have looked beyond and have already developed ambitious plans for wide-ranging development of industry and agriculture. The industrialization prospects of the OPEC countries, however, are uneven. In each case the extent to which comparative advantages can be identified and opportunities in these areas maximized will have important long-term policy implications both for the OPEC countries and the rest of the world. These relative cost considerations remain to be sorted out. Moreover, duplication of industrial projects in different OPEC countries is not unlikely, and can lead to serious oversupply problems in world or regional markets. The importance of early formulation of a sound development strategy should not be underestimated for the momentum of plans and projects is likely to prove very difficult to reverse.

Some countries, e.g., Indonesia and Nigeria, have important non-oil natural resources and large populations, potentially providing both ample labor and markets, and thus offer good prospects. In other cases, major industrial development will require larger markets than the national economies will provide. If successful, these efforts could have a significant effect on foreign exchange revenues and expenditures. An increase in production for export should increase imports of raw materials, and semi-finished products, while the increase in export earnings will expand import demand over a wider range of goods. Import policies may tighten, however, to protect infant industries, thus limiting absorptive capacity. The net effect will probably differ from country to country.

While diversification of their economies to lessen the dependence on oil exports is an important goal of most of the OPEC nations, in some of them the energy sector offers the best potential for development, if outside technical and managerial assistance is available. Development of Venezuela's tar sands, Algeria's LNG processing and transport facilities, and ambitious petrochemical projects in a number of countries are areas in which Western technology and services will be needed.

For some countries, like Indonesia, oil revenues may be a relatively minor factor in determining the course of development given its large population, its major development requirements, and low per capital income relative to potential oil earnings. Countries like Algeria, Iran and Nigeria will use oil and gas revenues in developing both the energy sector and in diversifying their economies.

A potentially large, albeit currently meagerly employed outlet for surplus OPEC funds is in the non-oil exporting developing world which can accommodate substantial aid and investment flows. OPEC bilateral aid commitments have been substantial--although concentrated geographically--but disbursements have been considerably more limited.

There are also small but growing flows of investment funds to LDC's from OPEC countries. Many projects in the primary sector may eventually be included in the OPEC investment portfolio, particularly as the more populated OPEC countries seek to secure long-term agricultural and raw material supplies. The importance of these flows to the less-developed countries will depend upon a complex of factors including the relative profitability of funds in the developed consuming countries and in OPEC domestic economies, the evolution of a greater willingness by OPEC financial managers to accept investment risks, the availability of technical services from the developed countries, and the emphasis OPEC countries place on aid as a political device.

Saudi Arabia, Kuwait, and Qatar would appear to be the OPEC countries with the least likelihood of being able to utilize "efficiently" at home the major portion of their accumulated oil earnings over the next decade or so, given their high per capita oil revenues, small labor force and domestic markets, limited natural resources, and problems of wealth concentration.

On the other hand, several OPEC countries will face revenue constraints some time during the next ten years, in the absence of dramatic changes in their export earnings. Algeria is already experiencing a significant current account deficit and a relatively large current account deficit is emerging in Indonesia. Moreover, these countries have not had the opportunity to build up sizeable assets abroad and consequently further rapid increases in their imports will depend upon their ability to obtain external financing. By the turn of the decade the net excess revenues of most of the remaining OPEC countries will probably have disappeared.

OPEC Imports In 1980 and 1985

The country analyses which follow provide estimates of import levels of each of the OPEC countries for 1980 and 1985. These should be viewed as indicative estimates which will become increasingly precise with the passage of time. The point estimates from this paper are presented in the following table together with forecasts by the World Bank and the OECD.

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OPEC Imports f.o.b.
(billions of 1974 dollars)

	1974	1980	1985
Algeria	3.7	6.5	10.0
Ecuador	0.8	1.5	2.2
Indonesia	3.9	9.4	12.3
Iran	8.0	24.4	32.0
Iraq	3.5	9.5	14.0
Kuwait	1.5	3.4	6.4
Libya	3.0	5.2	6.5
Nigeria	2.5	8.5	12.6
Qatar	0.3	0.6	0.9
Saudi Arabia	3.5	7.5	17.4
United Arab Emirates	1.6	3.9	6.9
Venezuela	4.7	9.4	12.0
Total	37.0	89.8	133.2
IBRD c.i.f.	44	92.0	NA
OECD f.o.b.	32	78.5	114

The 1980 estimate of total imports of $90 billion would represent a real growth rate of 16 percent per annum from 1974. The estimate of $133 billion for 1985 imports represents a halving of the average growth rate to only about 8.0 percent in real terms, and corresponds closely to the growth in global imports from 1968 to 1973. The 1980 estimates are appreciably higher than those of the OECD and the IBRD (after adjustment for freight and insurance), both of which divided OPEC into high absorber and low absorber groups for the purpose of forecasting. The 1985 estimates are substantially higher than the OECD's forecasts in absolute terms, but the percentage changes for the period are quite similar.

The country analyses in this paper suggest that only Iran will have an average real rate of growth of imports of 20% or more in the period 1975-1980. Saudi Arabia, Algeria and Libya will have average real import growth rate of less than 10% a year from 1975 to 1980. During the period 1980-85 the real growth rate of imports will fall below 10 percent for all of the OPEC countries with the possible exception of Kuwait, Saudi Arabia, and the United Arab Emirates. Only in Saudi Arabia will imports accelerate sharply from the pace of the previous five years, while the growth rates for Kuwait and the Emirates remain relatively constant. Iran and Indonesia should experience a pronounced decline in import growth during this period.

In identifying possible cases of revenue constraints on imports, the country analyses have assumed small annual increases in real oil revenues over present levels for OPEC as a whole, generally in line with aggregate estimates by the OECD. Differential growth factors were applied to individual countries, within a relatively narrow range to take into account cases of new and depleting reserves. A significantly different pattern would affect the import estimates for some countries.

Employing the OECD's growth estimates for aggregate OPEC oil revenues, the import forecasts in the table above would imply a current account surplus for OPEC as a whole of $13 billion in 1980 (in 1974 dollars). The cumulative surplus over the period 1974-80 would total about $195 billion, also in 1974 dollars.

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Iran

The Government of Iran contemplates that it will be able to utilize fully its annual oil earnings in the very near future, and some Iranian observers are predicting that by 1976 or 1977 Iran will become once again a net importer of capital.* This assessment has been greeted with skepticism by a number of analysts, particularly in light of Iran's impressive current account surpluses over the past year and a half. An assessment of Iran's evolving payments position, however, must take into account the sizeable outstanding Iranian commitments which even if not fully implemented will entail major expenditures abroad in the coming years, particularly for purposes of foreign assistance and domestic project development. This situation and a desire to sort out domestic priorities have prompted the recent Iranian reassessment of its spending plans.

The extent to which Iran's plans and commitments will be translated into actual imports will depend in part on the ability to alleviate bottlenecks which are becoming increasingly apparent in face of the dramatic surge in import levels since 1973. But revenue constraints might also arise. A major problem is an inadequate transportation system where demurrage can run up to 60 days and railroads and warehouses become periodically overburdened. Another problem is the lack of skilled labor and a growing shortage of semiskilled or unskilled labor, which the Iranians estimate could total 700,000 workers during the present plan period.

These two problems may not be as severe or as intractable as commonly believed. More effective utilization of port capacity in the past two years has enabled a 100% increase in the volume of cargo entering Iran's seaports. Moreover, expanded air freight and truck transportation has been used to alleviate the burden somewhat and use of these modes of transport should expand further in the coming years. More importantly, plans are underway to expand both port capacity and the domestic rail network. Port capacity should jump from 10 million to 18 million tons during Iran's current development plan period (ending March 1978), but continued expansion of the ports and domestic transport network will be required if Iran is to continue to expand its imports at a pace commensurate with the economy's growth potential.

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* A recent small borrowing in the Eurodollar market by an Iranian bank should be viewed as a step toward familiarizing the international financial market with Iranian paper and potential Iranian borrowers.

Despite the projected labor gap, the plan indicates that the labor force will increase by 1.4 million workers, or by nearly 15%. This would appear to be a conservative estimate. In the fourth plan period, the labor force in industry and services alone rose by 1.5 million people. In addition an increase in the low participation rate (29%), increased vocational training to upgrade the skills of the indigenous population and recourse to foreign labor could fill any remaining gap.

Iran's current development plan (March 1973-March 1978) calls for expenditures of over $123 billion, with a foreign component of $95 billion. Foreign exchange receipts are estimated at $114 billion of which $102 billion would be derived from energy exports. The revenue projections may be somewhat high, particularly in the case of energy exports which at present prices and levels would be overstated by about 10%. On the other hand it is also unlikely that merchandise imports, which at the halfway mark totaled about $22-25 billion, will reach the $79 billion target. We would anticipate total merchandise imports of about $65-70 billion in current prices, assuming average annual import price increases of about 10% a year, with allowances for a reduction in transport costs as a result of the opening of the Suez Canal. This would imply a merchandise import level in 1977 of between $17 and $20 billion on an f.o.b. basis, in current prices or about $13 to $15 billion in 1974 dollars. The current account surplus would shrink to about $3 to $4 billion and could disappear the following year. These estimates would mean continued full utilization of port capacity.

Looking beyond, it is clear that the Iranian authorities are determined to proceed with the rapid development of the Iranian economy, with initial emphasis on infrastructure and energy and then on industrial and agricultural development. Many extremely large projects are planned and a number of major contracts have already been awarded. These include, for example, $500 million for modernization and expansion of the telephone network, rail contracts estimated at $1.5 billion, $250 million for a wood products complex, $550 million for expansion of the Tehran airport and about $2 billion for nuclear power plants. Other projects in the billion dollar range are under consideration, particularly in the energy area. In addition, Iran also expects to expand considerably its military establishment and import payments for military equipment could reach $5 billion annually toward the end of the decade. Agricultural imports are also likely to be extremely high over the next five years, perhaps exceeding $2 billion a year by 1980.

The extent to which Iran will be able to continue to increase imports at a rapid pace in the late 1970's will depend in large part upon its ability to increase export revenues. It is difficult to quantify the pace at which export capacity will increase as a result of Iran's industrialization efforts. The plan's estimate of $4.9 billion in non-oil exports over the five years ending March 1977, would imply a 10-15% annual increase during the second half of the plan period and does not appear to be unrealistic.

It is even more difficult to assess the extent to which Iran's natural gas exports will be expanded. In Iranian Year (I 74/75 these exports amounted to about $200 million. Completion of the proposed Kalingas LNG plant and the expansion of the Iranian Gas Truckline could raise gas export levels to $750 million or so by the end of the plan period. Large Iranian gas reserves could enable Iran to expand sharply this level in the 1980's, if arrangements can be made to construct costly LNG facilities.

In looking at Iranian import requirements over the next decade, we find that the experience in the 1960's demonstrates an especially close link between public and private investment and public consumption, on the one hand, and Iranian import levels, on the other. This relationship provides remarkably good estimates of the large increases in imports in IY 1973/74 and IY 74/75 and indicates that a 1% increase in the real value of these components will prompt a 1.2% increase in real imports. Using this relationship, based on plan targets, non-military imports in IY 77/78 would run about $11.5 billion in 1974 prices.

We would expect that the growth of Iran's GNP would continue to taper off toward a more mature level in the Sixth and Seventh Plan periods. The 16.5% real growth rates expected in 1976-77 could decline to a 6% level by the mid-1980's which would imply a non-military import level of about $28 to $30 billion (in 1974 prices). A higher growth rate is probably not obtainable within the limits of present plans for expanding port capacity and the internal transport network and even at this level any significant level of military imports might stretch physical capacity beyond its limits.

Saudi Arabia

During the past year the marked increase in the efficiency of the Saudi Arabian Government to respond bureaucratically and administratively to developmental needs bodes well for Saudi Arabia's ability to spend a substantially larger portion of oil revenues in the coming five years than had been previously thought. The extraordinary sum of $144 billion in expenditures has recently been announced for the 1975-80 Development Plan. Progress toward this developmental goal will require Saudi Arabia to increase the efficiency of its air and sea ports, to attract skilled and semi-skilled foreign labor, to expand an already strained construction industry, and to upgrade the quality of the Saudi civil service.

The economic development of Saudi Arabia will clearly be dependent on its ability to import. The Development Plan anticipates annual import levels rising by 30% a year. This is somewhat below the increases in Saudi Arabia's imports in 1974 and 1975, which are estimated at 57% and 43%, respectively. The present facilities in Saudi Arabia are not capable of handling the plan's target for import growth, but projects now either under active consideration or construction will gradually alleviate some of the more pressing bottlenecks to further rapid increases in imports.

There is little question but that Saudi Arabia's requirements are sufficient to accomodate sharply expanding import levels at least in the short-term. Expenditures for large and costly capital projects as well as for defense material could easily increase the still low absolute level of Saudi Arabia's imports by 20% to 30% a year if bottlenecks to delivery and implementation are reduced. There is some question, however, whether Saudi Arabia will take this course. The Government is clearly determined not to be stampeded into ill-conceived expenditures and is taking considerable pains both to set in place administrative machinery which can handle a sharp acceleration in investment activity and to assess carefully both the need and efficiency of the many (and occasionally conflicting) project ideas which have been proposed.

Instead, we would expect the trend in Saudi Arabia's imports to follow a somewhat different course than trends in most of the other OPEC countries. Over the next decade a number of the other oil exporting nations may experience a continuous tapering off of import growth levels from the rapid increases of 1974 and 1975. The growth curve for Saudi Arabia, however, may prove to be roughly N-shaped, with relatively small increases in the near term, followed by significant acceleration a few years from now, as plans and programs become sorted out and major bottlenecks are breached. Thus, the volume of Saudi Arabia's imports might increase by less than 10% on average until the turn of the decade, when the rate accelerates sharply to perhaps 18 to 20% a year during the period 1980-85. Service payments over the next ten years, however, may well increase more rapidly than merchandise imports.

Saudi Arabia's development plan earmarks almost \$15 billion for the hydrocarbon industries, including a gas gathering system, five petrochemical complexes, three export refineries, an aluminum plant and a 3.5 million ton gas reduction steel plant. The \$15 billion target does not include investment financed by the Saudi private sector or by foreign firms such as oil companies, which are expected to provide at least 30% of equity capital. These major industrial undertakings will be sited at Jubail, near the oil fields on the Arabian Gulf and at Yenho on the Red Sea. The implementation of these projects will rely on the ability of foreign joint-venture firms to develop their own supply lines and services and to recruit manpower first to construct these installations and then to operate them. The prospects are good that these projects will be on stream on schedule between 1978 and 1980.

The largest allocations in the development plan are for defense and education; \$24 billion and \$22 billion, respectively. About \$10 billion has been allocated to school construction while planned military construction amounts to only \$3 billion. By and large, more of the defense budget can be expected to be utilized than the education budget, given the nature of the expenditures involved and the substantially different capacities of the two sectors. The majority of defense expenditures will be for sophisticated, expensive and mobil hardware. In addition, the Defense establishment already has relatively sophisticated infrastructure, ready access to educated manpower and independent means of facilitating imports.

Other sectors on which the plan places heavy emphasis, also do not share the same capabilities of the defense establishment and will have greater difficulty in utilizing planned allocations. These have been set at \$15 billion for urban development, \$10 billion for water and desalination, \$7 billion for health, \$5 billion for social welfare, \$5 billion for electricity, \$2 billion for agriculture, and \$1 billion for telecommunications.

The principal constaint on Saudi Arabia's absorptive capacity remains the small manpower base and an extreme shortage of persons with technical skills. Unofficial estimates set the Saudi labor force (including foreigners) at 1.5 billion men. Traditional restraints effectively prohibit women from entering the labor pool, but this situation can be expected to change and with it Saudi Arabia's absorptive capacity. In order to meet the manpower requirements of major projects scheduled to be on stream by 1980, the total labor force will have to increase by more than 500,000, according to the Plan. More than 150,000 Saudis will enter the labor force before 1980, with the balance of the plan's manpower requirements satisfield by an increased level of non-Saudi labor.

The port situation is also a major stumbling block. Large quantities of unclaimed and uncleared tonage clog transit sheds. Demmurage charges regularly range between 20-40%, as turn-around time hovers between 30-60 days. In 1974, about four million tons of general cargo valued at $3.5 billion were imported. Port development plans such as the addition of 20 new berths at Jidda and 16 at Dammam and the increasing mechanization of both ports are expected to raise Saudi Arabia's import capacity to 13 million tons a year by 1980. Contracts involving $1 billion for construction and equipment have already been awarded for the port expansion at Jidda and Dammam. The development of new ports, in addition to Jabail and Yenbo, is also being contemplated. Not all the solutions to port congestion are physical; improved port administration could make the ports more equal to the burden. A first step in this direction was taken by the Saudi Customs Service's recent decision to drastically cut-back the number of signatures required to clear goods from land, sea, and air ports.

The Saudi construction industry is heaviliy overburdened. Last year's outlay of about $3 billion is projected to expand by 60% a year, a goal which is unattainable given present construction techniques in Saudi Arabia. But, the influx of more labor-saving, capital-intensive construction techniques can be expected to transform this sector into a responsive and productive industry during the next couple of years.

The long-term prospects for the development for Saudi Arabia also depend on the improvement and ungrading of the Saudi administrative machinery. The Saudi administrative infrastructure is sometimes frustratingly thin, despite the large number of Saudi graduates returning from Western, mainly American universities. It is not uncommon for the

Saudi private sector to attract talented young Saudi bureaucrats and administrators from their government positions. Aware of the problem, the Saudi Arabian Government is developing incentives to attract and to keep that talent to respond to the administrative needs of the rapidly expanding economy.

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KUWAIT

Because of the high level of Kuwait's oil earnings and projected income on foreign investment, its ability to import will, for the foreseeable future, be constrained only by what it can physically and economically absorb, by government policies which impinge on consumption, investment and imports, and by the comparative costs and advantages of domestic vs foreign investment. Kuwait's oil earnings are expected to continue to be well above its import needs despite a pattern of production cuts which had by mid-1975 brought output down to about 55% of its pre-crisis level.

Kuwait's capacity to import is limited primarily by its small population (under 1 million) and land area and lack of non-hydrocarbon natural resources. The effect of these limitations is reinforced by various government policy decisions: restrictions on immigration to check the growth of the non-Kuwaiti population (now 55% of the total); unwillingness to facilitate investment projects of questionable economic efficiency or which would degrade the environment; and an unwillingness to lock itself into a higher rate of petroleum production that it will want to sell abroad.

The requirement for 51% Kuwaiti ownership of businesses tends to discourage foreign investment and associated imports. The government's policy of restricting imports on competing products to encourage development of new, small industries will also inhibit the growth of imports over the longer term as the output of these new industries increases. Thus, the more rapidly Kuwait's imports of capital equipment increase, the more likely will there be a shift away from imports of selected consumption and intermediate goods. Although the government is prepared to continue to utilize a portion of its oil earnings for domestic investment and consumption, pressures for substantial increases in expenditures are not significant, given Kuwait's present high standard of living, extensive welfare services and well-developed infrastructure which have been achieved through judicious use of oil revenues in the past decade.

The most important factor stimulating Kuwait's imports is the government's domestic current and investment expenditures. Earnings from petroleum production accrue directly to the government and contribute to disposable income in the

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private sector as they are spent by the government. The government's domestic spending has been directed toward transferring income to its citizens, toward providing a high level of public services and to a lesser extent, toward investment (16% of total domestic expenditures from FY 1971-74 1/).

Kuwait's FY 1975 budget called for total domestic expenditures of about $3 billion, up 70 percent from FY 1974. Domestic expenditures in the FY 1976 budget, reflecting a balancing of needs and problems associated with rapid growth, are only 13% above FY 1975 levels. This approximates the more traditional pattern in the period FY 1971-74 when expenditures rose by an annual average of 16%. Public consumption will continue to account for a major share of total budget outlays - about 60 percent. Although a new development program has not yet been formulated, the 114% projected increase in capital expenditures in FY 1975, while not fully realized, and the 62% increase projected for FY 1976 (to over $800 million) indicate that the government will be encouraging a much more extensive domestic development effort than it has in the past. Development is likely to be centered in hydro-carbon-based, high technology, non-labor-intensive industries and in light industries which are not labor-intensive. Some $3 billion or more is expected to be earmarked for industrial projects over the next five years, including a very large LPG plant, petrochemical plants and expansion of refineries, fertilizer plants and the oil tanker and general cargo fleets. Public sector plans include $1 billion in new public housing, expansion of power and water desalting facilities, improvement and expansion of education, medical, transportation and communication facilities. Because of the lack of domestic resources, the import component for these projects will be very high. The projected improvement in Kuwaiti military equipment and facilities, which is expected to cost at least $1.4 billion by 1980, will largely entail imports from abroad.

The rate of growth of Kuwait's imports in constant prices during the next ten years may be expected to range from 10% to 20% compared with an average annual increase of about 7% from 1968 to 1973 and estimated increases of 60% in 1974 and 40% in 1975 (in current prices). These estimates assume that the growth in the government's domestic expenditures in the near term will be closer to the FY 1976 budget target than the FY 75 surge which resulted from

1/ Fiscal years end March 31.

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the abrupt jump in oil receipts. The lower end of the range (around 10%) would reflect a continuation of present fairly conservative policies with respect to immigration and development, and assumes that development expenditures will rise more rapidly than in the pre-1973 period. An average increase of 20 percent in imports would reflect a more dynamic government policy and a willingness to accept an increasing number of problems associated with sustained and fairly rapid development of the economy.

A growth rate nearer the lower end of the range is likely in any event in the earliest and latest years of the 1975-1985 period. In the early years, if the government attempts to implement an ambitious development program it will take time to import or develop the necessary managerial and technical skills and organization. In the later years, military spending should decline after the present modernization of the military forces is completed, and a portion of the greater industrial output resulting from the new development projects will be in import substitutes. Based on an estimated 1975 import level of $2 billion, these growth patterns would lead to an import level of about $3-4.5 billion in 1980 and of $5-7 billion in 1985.

Nigeria

Nigeria's imports have accelerated sharply over the past year, putting a great strain on ports and on available managerial and technical manpower. However, neither constraint is expected to continue for long, and balance of payments deficits are expected to develop by 1980, if not before.

The government has liberalized imports during the past year in order to help control inflation and this is resulting in a substantial increase in consumer goods imports. At the same time, development spending is expected to increase as a result of the government's policy of meeting its manpower needs by undertaking crash training programs to the maximum extent possible and of relying on private foreign investment as necessary to organize and implement many of the larger and more complex development projects. Major programs are also underway to recruit foreign experts to fill planning and technical positions throughout the public sector. The revenue side of Nigeria's international accounts may, therefore, prove to be the chief constraint on imports by the early 1980's.

With a large population (75-80 million), a low per capita income ($270), inadequate physical and social infrastructure, a need to improve the agricultural sector which provides income and employment for most of the population, and natural resources which include oil, gas, coal and tin, the scope for development and imports is great.

Nigeria's Third Five Year Plan, covering the period from 1975 to 1980 calls for expenditures of $45 billion, compared with actual expenditures of $7.9 billion under the Second Five Year Plan. Of the $45 billion to be spent under the current plan, $30 billion is to be financed by government revenues - mostly oil receipts - and the balance from the private sector. Major emphasis will be on development of infrastructure (roads, communications, airports, and housing), the agricultural and rural sectors, and large scale industry to produce steel, pulp and paper, fertilizers, petrochemicals and refined petroleum products.

The Nigerians will have to turn to foreign sources for much of the capital goods, consumer goods and services needed to fulfill the Plan. Imports under the Plan are projected to increase at an annual average rate of 20%, in real terms, to 95% of oil revenues by 1980. While experience under the Second Five-Year would seem to point to non-fulfillment of Plan goals, revenue constraints have been temporarily lifted and accelerated development outlays - perhaps peaking by 1980 - seem likely as plans which were to have been implemented earlier finally get underway toward the end of the decade.

The current plan envisions large accumulations of reserves during the early years which would be utilized to finance the deficits projected in the early 1980's. However, this goal is currently in jeopardy because the projected oil revenues for 1975, the first year of the plan, are running well below the target figure. At the same time, domestic inflation has continued to increase and may cause imports of consumer goods to increase more rapidly than projected. Furthermore, unless agricultural production is increased substantially, Nigeria, which has traditionally been a large exporter of agricultural commodities, may become a net importer as higher incomes are reflected in increased spending on foodstuffs. This shift is already occurring, causing more funds than projected to be spent on food imports.

As a result of these factors, Nigeria's surpluses in the early years may prove to be smaller than projected in the Five Year Plan, deficits may develop before 1980 and accumulated reserves may be inadequate to finance the projected deficits in the early 1980's. Under current Plan assumptions, Nigeria's imports would be close to $9 billion by 1980 and as much as $11 billion by 1985 (in 1974 prices). However, if recent trends persist and consumption is not restrained, import capacity could be as much as $3 billion higher in 1980, and Nigeria's ability to realize the import level projected for 1985 would depend on its ability to mobilize sufficient external aid.

The United Arab Emirates

The UAE's capacity to import is determined primarily by consumption and development activity stimulated by the domestic expenditures of the government of Abu Dhabi, which accounts for 85% of the oil receipts of the Emirates and finances most of the UAE budget as well as its own budget. The import level is also affected, to a lesser extent, by the general level of economic activity in the Persian Gulf region, since Dubai, the second most important of the Emirates serves as a large entrepôt center.

Abu Dhabi has projected a balanced budget (of about $3.3 billion) for 1975. The projected budget calls for a 50% increase in current expenditures over the 1974 level, a doubling of both Abu Dhabi's contribution to the UAE budget and its assistance to third countries, and a quadrupling of development spending. The balanced budget for 1975 is in marked contrast with Abu Dhabi's previous experience of governmental surpluses, when oil revenues outpaced expenditures. The disappearance of this budget surplus, which in 1974 was estimated to have been $1.5 billion dollars, together with drastic cutbacks in oil production in the earlier part of this year led to expressions of concern that Abu Dhabi was facing a financial squeeze. This concern has proven to be unfounded, as oil production once again picked up and actual foreign exchange disbursements lagged behind the expenditures committed in the 1975 budget.

The expenditure targets, especially for domestic development, are not likely to be realized in 1975 due to persistence of the constraints which impeded implementation of Abu Dhabi's development activities even before the four-fold increase in oil prices. The most important of these obstacles are the shortage of skilled and unskilled labor, slow implementation of economic plans by a governmental apparatus beset by organizational and institutional problems and restrictions on foreign ownership of businesses. The latter discourages foreigners from taking too active and direct a part in the economy of Abu Dhabi. However, the estimated 50% increase in development expenditures which was achieved in 1974 in real terms indicates that the government has made progress in overcoming these problems.

As a result of projects now under consideration (see below), government outlays are likely to reach the levels projected for 1975 within a year or two. It would appear that after 1977 further increases in budget expenditures for domestic development will have to be limited to the amount of any increased receipts from oil, gas, or investment, or to a reduction in actual disbursement of foreign aid commitments, unless the government is willing to engage in deficit financing, which the governments in the area have generally not been inclined, or pressed by their citizens, to do.

The 1975 budget, which includes new projects with a total estimated value of well over $600 million, continues Abu Dhabi's pre-1974 emphasis on the development of infrastructure services while embarking on an extensive industrialization program. Abu Dhabi's plans include the following infrastructure projects: a $300 million expansion of its port, $30 million extension of its international airport, construction of a road to the Qatari border expected to cost over $60 million, construction of general hospitals ($80 million) and over $100 million in power and water projects. In addition, Abu Dhabi's industrialization program includes: the Das Island LNG complex, expected to cost $1 billion, a $40 million oil refinery, a $20 million cement plant, a $20 million flour mill, and construction of new hotels worth more than $70 million. Abu Dhabi has also indicated preliminary interest in an aluminum smelter, a small steel mill, petrochemical plants, and a large civic and sports center, although the magnitude of expected outlays has not yet been determined.

Dubai has also embarked on a program to expand its trade and services capacities and to diversify its limited industrial base. Decision-making in Dubai is concentrated in the hands of Sheikh Rashid and a small group of advisors and, thus, decisions are made more expeditiously than in Abu Dhabi. Furthermore, Dubai encourages foreigners to help implement the economic decisions. Dubai has recently completed a $70 million deep water expansion of its port and has started construction of a $300 million dry dock. In addition it plans a $400 million LNG plant, a $125 million trade center, and a $70 million cement plant.

The UAE (Federal) budget also provides a source of development expenditures, primarily for infrastructure projects in the poorer, non-oil producing Emirates. In 1974, the Federal Government spent about $40 million on development and has earmarked about $244 million in 1975 for development projects. The major projects are in the sectors of housing, and hospital construction; roads (approximately $50 million), ports, electricity and water

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desalinization. The UAE Federal Government also plans to expand its military forces and military imports are expected to run $100-$200 million annually over the next five years.

In addition to expenditures by Abu Dhabi, Dubai and the Federal Government, the only other source of any major expenditure is the oil revenue accruing to the Emirate of Sharjah. Infrastructure projects totalling over $60 million as well as a $50 million expansion of its port facilities, extensive construction of hotels and a $25 million cement plant have been initiated there.

With little domestic agriculture and industrial production as yet, the UAE economy is almost wholly dependent on the import of goods for consumption as well as for investment. Import levels have followed the pattern of the domestic expenditures of the government of the UAE, Abu Dhabi and Dubai, and more than doubled from 1971 to 1973 and almost doubled again in 1974 to about $1.6 billion. Imports for 1975 are projected at about $2.4 billion or 47% over the 1974 level.

While substantial increases (perhaps 20-30%) may continue over the next couple of years, as the UAE's new wealth reflects itself in increased development and private consumption, budget constraints coupled with domestic production of import substitutes can be expected to result in smaller increases in subsequent years. As a result, imports from 1975 to 1980 should increase by an average of about 15% per year, leading to an import level in 1974 prices of almost $3.9 billion in 1980. After 1980, as basic infrastructure requirements are satisfied, expansion of the military is completed, and the disruptions caused by rapid industrialization and competing development in the individual emirates begin to be felt, the small size of the population (about 350,000, the majority of whom are foreigners) and the barren land will limit import growth to about 10% a year. If oil exploration in the other Emirates is successful, however, these states can be expected to pursue an independent development effort and imports will continue to grow rapidly. A range of imports of $6-8 billion (in 1974 prices) is therefore possible by 1985.

Iraq

Iraq's pattern of foreign trade during this decade will be fashioned from an ongoing balancing of objectives and performance of the country's development plans. The financing requirements of large prospective levels of imports appear to be within the level of foreign exchange receipts that the plan will provide over the span of several years, but the surplus is not likely to be so large as to encourage grossly inefficient expenditure, nor oil revenues so predictable as to preclude financial stringencies over short intervals of time. The first years of the development program should see the implementation of many infrastructure projects that will ease bottlenecks to further development and, being capable of multiple productive uses, should prove to be economically worthwhile. The subsequent stages of development, and their success cannot be as readily assessed.

The energy sector is being given high priority by the Iraqi authorities and further development of this sector is likely to result in a significant "recycling" of oil revenues into Iraq's energy development. Petroleum exports, currently about 2.4 million b/d is considerably less than can be realized with additional investment. Output is more or less restricted to current levels by the capacity of transit and terminal facilities. Heavy investment such as the Hoditha-Rumaila pipeline and new terminals on the Persian Gulf, due to be complete in the next year, should raise capacity significantly. Furthermore, there has been little exploration for oil in Iraq during the past decade, and it is believed that a $1.5 billion exploration program to be carried out during the next five years will substantially increase proven reserves. As part of a general pruning of its development plan, and in response to possible continued sluggish growth in the consumption of petroleum, Iraq recently lowered its targeted 1980 production capacity from 6.5 million b/d to around 4 million b/d, but this level could be exceeded since the change in target levels was not accompanied by corresponding changes in capacity expanding investment.

Under the influence of expanded budgets and development plans, imports which tripled between 1973 and 1974 should continue to increase rather rapidly. The development budget for 1976-1980 calls for expenditures of $34 billion, or triple the previous five-year plan, of which $10 billion is targeted for agricultural development.

Industrial projects involving production of fertilizer and farm machinery are important steps toward achieving the goal of agricultural self-sufficiency. The plan also provides $7 billion for education, communication and transport which will expand both import and export capacity substantially. In particular ports will be expanded from a capacity of 1 million tons in 1973 to 2.5 million tons by 1980, while overland connections to a free port that Iraq has arranged to use in Kuwait will be improved to relieve any potential port congestion that might arise before the completion of the port expansion program. Many of the individual projects that make up the plan are drawn from a backlog of projects that Iraq has studied for years, and,considering the large number contracted for on a turnkey basis, the large majority should be completed according to schedule, significantly improving an implementation rate that only reached 65% during the 1965/66 - 1969/70 development plan.

The course of economic development should affect the demand for imported goods in several ways. First, the demand for capital goods, most of which will have to come from abroad, should be sustained by that projected high level of capital investment. Second, to the extent that oil revenue is redistributed as disposable income to the private sector the demand for consumer goods, and consequently for imports of consumer goods will rise. We would expect, however, that government investment would continue to have a substantially greater impact on the demand for imports than funds transferred to the private sector, especially in light of the governments emphasis on import substitution for non-investment goods.

The government has influenced the level of private imports, both directly through its foreign exchange licensing procedures, and indirectly through the budget's influence on private disposable income, hence on the demand for goods. This influence was exercised forcefully during the period 1969/74 when, anticipating a fall in oil revenue, the growth in real private disposable income was completely stopped. In the future, the policy of promoting the production of import substitutes should restrict the level of imports without recourse to the traditional controls. The government has in fact begun to stimulate private demand by granting extensive tax cuts and expanding welfare programs. Since the current account is very close to being in balance, it is to be expected that temporary shortfalls in revenue will occur in the near future. Iraq's recent borrowing of $500 million from the Eurocurrency market suggests that it will meet such shortfalls by recourse to foreign capital rather than by disrupting the expansion of either private or public expenditure.

The expansion of various sectors of the economy should be sufficiently in tandem to avoid heavy reliance on external financing. Merchandise imports may be expected to reach, in constant 1974 prices, \$9.5 billion in 1980, and \$14 billion in 1985, while the current account balance which showed a small surplus in 1975 can be expected to gradually reach a surplus of about \$4 billion in 1980 then to decline to a deficit of perhaps \$1 billion in 1985 (both in current prices). Balanced economic expansion will result from an expected high rate of implementation of the current development program and an expanded program for 1981/85, while attaining a petroleum production level of 4.5 million b/d by 1980, and maintaining it at that level through 1985. The goal of agricultural self-sufficiency may not be met, but the growth of agricultural imports should stop. On the other hand, imports of raw materials and capital goods should increase markedly as private income and capital expenditures under the development plan increase.

Algeria

The substantial current account deficit projected for 1975, despite continued restraints on consumption through strict controls on wages and nonessential imports, clearly demonstrates that the most significant constraint on Algeria's ability to import will be the availability of foreign exchange. As a result of a deterioration in the trade account and some prepayment of external debt, Algeria's net foreign reserves dropped by 75% from September 1974 through May 1975, to $428 million, or less than 2 months' imports at the projected 1975 rate. (A $350 million increase during June is attributable in large part to recent borrowings.) The crucial question is whether Algeria can obtain sufficient external financing during the next few years to enable it to implement its development program as scheduled and whether development of its gas reserves will proceed at a sufficiently rapid pace to eliminate the resource gap after 1980.

Algeria's economic development program is dominated by intensive efforts to industrialize as well as to meet the country's substantial needs for food,imports of which are projected at over $1 billion for 1975. Key areas of effort include continued rapid development of basic industries (hydrocarbon, steel, fertilizers), accelerated growth of the processing industries (metals and construction materials) and increased production of consumer goods.

The potential for absorption of imports in Algeria is significant given: 1) the need for infrastructure development as a result of the low priority which has been given to this sector in the past, 2) the large potential labor supply based on a large population, a rapidly increasing labor force and a high level of unemployment and underemployment which is estimated at 12 percent of the labor force, and 3) lack of additional land suitable for cultivation which means that a large volume of food imports will be required at least until 1980 as Algeria attempts to increase the productivity of land now under cultivation.

The Algerian Government has shown itself able to make decisions to commit funds for domestic development purposes. Actual expenditures under the 1970/73 Plan were 20% higher than projected although, as a result of delays and constraints in project preparation, adoption of new techniques, and unavailability of qualified manpower and basic raw materials, a backlog of projects remained at the end of the Plan period.

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The 1974-77 Plan calls for public investments of $27 billion, triple the total expended under the previous plan, with an import component of about $10 billion. In 1977, the last year of the present plan period, imports of investment and consumer goods are expected to reach a level of $8 billion under the original plan estimates.

Difficulties in achieving these targets are likely, however, primarily because of an increasingly serious foreign exchange constraint. The 1977 target would imply a current account deficit of $4-5 billion, the full financing for which may not be readily available. Another major factor in Algeria's evolving payments position is repayment of principal and interest on its public external debt, which is already running in the neighborhood of $600 million on an outstanding debt level of almost $3.5 billion. In order to avoid adding to its debt burden in the near future, Algeria is seeking longer term credit to cover present current account deficits.

Inadequate infrastructure is emerging as another constraint. Unless greater emphasis is given to infrastructure - which is to account for only 14 percent of total expenditures in the present plan - severe bottlenecks will emerge with consequent implications for the efficiency of industrial undertakings and import levels. The government must also train and educate its labor force to operate an evolving industrial economy. At present the lack of skilled technical and managerial workers causes serious problems which may ultimately result in investment slippages.

Algeria's imports will probably be affected mainly by its ability to expand its gas exports and by the amount of external capital Algeria can obtain. If Algeria is successful in obtaining the external financing it needs, it should be able to maintain an 8 percent real growth in GNP - the 1974 rate - and based on present income propensities to import, the level of merchandise imports in 1974 prices would reach $6 to $8 billion by 1980 and $10.5 to $12.5 billion by 1985. We would expect imports to be in the lower end of these ranges because of foreign exchange constraints, and even these levels will not be achievable without a substantial increase in export earnings.

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Qatar

Qatar's use of its oil revenue to further the country's economic development will be restricted by its small population and lack of skilled indigenous labor force. However, imports of consumer goods, as well as intermediates for domestic production of consumer goods, should grow substantially.

Capital investment is largely in the hands of the government, although the absence of comprehensive national income data precludes an accurate assessment of the size and the influence of private investment activity on imports. The major thrust of the development effort has been and will continue to be in the area of infrastructure facilities such as communications networks, power plants, and power transmission facilities. More recently, decisions have been made to undertake a number of industrial projects including an asbestos cement plant, gas-based petrochemical plants, worth over $200 million; a $200 million steel-rolling mill, and a $100 million natural gas liquefication and ancillary facility. These projects are not expected to come on stream before 1977, and some slippage in the time table can be expected.

The development budget which targets nearly $500 million of capital expenditures for 1975/76 should be difficult to implement. This would represent an increase of more than 200% over the previous year's budgeted capital expenditure, which in itself represented an increase of over 130% over the 1973/74 budget. These increases are difficult to administer as Qatar does not have a centralized planning authority, and the administrative machinery for planning and executing government projects is still in its formative stages. As a result, actual expenditures are usually but a fraction of budgeted expenditures (only 65% in 1972). Efficiency is also hindered by public policy which guarantees jobs to all nationals and requires that middle and upper management slots in many of the proposed heavy industries be reserved ultimately for Qatari citizens.

The industrial sector has grown substantially during the recent past. Annual cement production expanded by 21%, frozen shrimp, 15% and electricity generation, 13%. Moreover, new activities, such as the production of flour and desalinized water, have been introduced. There are indications, however, that further expansion will be limited. First, the shortage of labor in Qatar has resulted in the use of substantial imported labor, with the result that Qatari nationals constitute only a small portion of the economically active work force. But industrial development in the countries which are important sources for Qatar's labor (for example, Iran and Oman) has restricted the flow of labor to Qatar and substantially increased wage rates. This trend should continue and labor should become increasingly scarce and expensive. Moreover, there is major concern over further dilution of the national character of the labor force which will be a restraining influence. Second, some key sectors have been neglected. Agricultural production, after a decade of flourishing growth, began to decline in 1972 as agricultural labor left the land for more renumerative employment in construction. Also until recently, when the government began to invest in industrial plants, private investment was channelled into construction and trade rather than into industry, because of the higher short-term profits in these activities and the minimal requirements for capital and technical know-how.

In the past the public sector has redistributed a substantial part of its oil earnings through its current expenditures, and this policy should continue in the future. Public expenditures support a growing social welfare program in the areas of housing, education and health. These programs, as they supplement the income of the private sector, will stimulate the demand for consumption goods and, with limited domestic production, the demand for imported consumption goods. A rough indication of the magnitude of income redistribution is the level of annual current government expenditures which in the past has amounted to 50% of the previous year's oil revenue.

Last year, Qatar's balance of payments showed a current account surplus equivalent to 75% of its oil revenues, a historical high. This is a natural reflection of the difficulty of making prompt adjustments to the surge of oil revenues, but in the next few years the absorptive rate is expected to increase substantially. Qatar can be expected to increase its merchandise imports by 13% a year to about $600 million in 1980, and by 9% annually thereafter, reaching $900 million in 1985, (both in 1974 prices).

Venezuela

The growth in Venezuela's imports will be subjected to financial constraints by 1978, when the current account, having shown substantial surpluses in 1974 and 1975, again moves into deficit.

Oil revenues are expected to fall 12% between 1974 and 1975, and Venezuela planning authorities anticipate that they will continue to fall at a rate of 5% per year at least through 1980. These declines, resulting from a fall in oil production to a level that currently stands at 76% of capacity, are attributable in the short run to decreased demand for petroleum and perhaps to production rationing as well. The depletion of oil reserves, which has reduced productive capacity by 9% since 1973, will compel reduced levels of production in the long term unless new petroleum sources are developed.

The ambitious development plans of the Venezuelan Government will require large amounts of foreign exchange. Investment in transportation, communication and power infrastructure is well advanced. The new Government of President Carlos Andres Perez has greatly accelerated long-standing programs for the development of Venezuela's steel, petrochemical and aluminum industries. Venezuela has nationalized the iron mines and will do the same with the petroleum companies during 1975. The Government intends to move quickly into new industries, such as aircraft and shipbuilding, and has budgeted large in-increases in credit to be extended to the agricultural and industrial sectors. Large new investments will be necessary in the petroleum sector, particularly in the Orinoco tar sands, if Venezuela is to continue to be a major petroleum producer in the future. Notwithstanding such hopes, the National Planning Office is just completing a Fifth National Plan which, according to the press, projects a gradual decline in the output of petroleum, which is to be offset by a general increase in the other economic sectors.

Plans for capital intensive and highly sophisticated industries will require a level of managerial and technical skill that is very scarce, and substantial imports of capital goods. In light of the shortage of labor and apprehension over the disruption that sharp increases in demand can cause, a substantial part of the oil revenues in 1974 and 1975 will be held abroad to sterilize its impact on the domestic economy, but will be drawn down over time to finance the foreign exchange costs of the investment program.

For 1976, recent estimates by the Finance Ministry call for an "austerity program" in order to minimize the impact of an estimated $1 billion decline in government income from the petroleum industry resulting from declining output as well as anticipated effects in the post-Nationalization period.

The total ordinary budget for 1975 amounts to $6.6 billion, as compared to actual cash outlays of $5.1 billion in 1974 and $3.4 billion in 1973. Roughly 40 percent or $2 billion of the 1974 ordinary budget was devoted to domestic investment, but 47 percent or $3.8 billion is allocated to investment in the 1975 budget.

The major persistent obstacle to long-term development in Venezuela, is the economy's lack of diversification and a failure to mobilize domestic resources outside the petroleum sector. Agriculture accounts for less than 5 percent of GDP and is technologically backward by Latin American standards. The manufacturing sector is high cost and highly protected. Skilled labor and managerial and scientific talent are in short supply despite very large educational expenditures over the past decade. Income distribution is extremely skewed. On the other hand, transport, communications, and power infrastructure are well advanced, and the natural resource endowment is exceptionally rich.

Venezulan imports rose 65% in 1974 and should increase about 40% in 1975. But, as a result of an emerging foreign exchange constraint, the growth in imports should decline sharply, perhaps to 20% in 1976. The current account may go into deficit in 1977, and import growth may not exceed 10% a year through 1980. The severe financial constraints that will become apparent by then, and the completion of the first stages of the development program may further reduce the growth in imports to 5% per year during the period 1980-85. At these rates imports (in 1974 prices) will amount to about $9.5 billion in 1980 and $12 billion in 1985.

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Ecuador

Ecuador should have the capacity to absorb oil revenues over the next ten years under any reasonable scenario of production and prices. Public sector infrastructure is undeveloped and the country is starting from a low level of economic development. Increasing imports of industrial inputs are easily absorbing Ecuador's foreign exchange at the present time.

Ecuador's 1973-77 Development Plan presents a comprehensive strategy for maximizing the impact of petroleum revenues and achieving self-generating growth. The plan calls for: (a) expanding and improving the physical infrastructure by extending transportation, energy and other basic facilities into new potentially productive areas and improving such facilities as now exist, (b) expanding and improving the provision of services and technical inputs needed for raising productivity in agriculture, industry and supporting services and (c) expanding and improving the provision of education, training, health and other social services to upgrade the quality and raise the living standards of the labor force and the population generally.

In order to implement the Plan efficiently, the Planning Board has been considerably strengthened with personnel and financial resources. Serious efforts are also being made to strengthen and accelerate the process of project preparation in the Planning Board and public agencies. Government planners have just completed an inventory of projects, and a Pre-Investment fund for financing pre-feasibility and feasibility studies through final engineering design has been established. Complementing these efforts, the Government ha segregated from the budget the additional revenues accruing to the Central Government from the increase in petroleum prices. These resources, accumulated in the National Development Fund, will finance investment projects as they become ready, over and above those already included in budgetary appropriations.

The Government plans to invest $1.7 billion during 1974-78, with emphasis on rural infrastructure projects and manpower development. Imports for the same period are expected to reach $3.8 billion of which close to $3 billion are expected to be producer goods--which should impact favorably on future growth rates.

The progress of the country's growth has emphasized industrial development. In 1973 industrial production increased by 8% and by 12% in 1974. Revenue increases from rising oil prices have enabled Ecuador to sustain real growth in manufacturing and agriculture. Availability of foreign exchange reserves has enabled Ecuador to decrease tariffs on imports of materials inputs and intermediate goods, encouraging domestic industrial growth. Imports of capital goods for industry increased 112% in 1974 over 1973's level. The principal item in this category of imports was industrial machinery which grew by about 120%.

Construction has been another growing sector with an average annual growth in output of 9% over 1972-1974. At present the capacity for producing inputs for construction is severely limited. Demand for capital goods and intermediate inputs for construction has been met by a substantial increase in imports, doubling from 1973 to 1974. Government policy has been to subsidize imports of construction materials, especially cement and iron, in order to increase national production in other sectors.

Total imports in 1974 increased by 72% over 1973. Although the annual rate of increase of imports should slacken in succeeding years, we anticipate no serious obstacles to utilization of Ecuador's oil revenues through the 1970's. Tariffs have been reduced and the Government is offering expanded credit facilities for imports. Ecuador should have no port capacity bottlenecks to slow import growth.

There are only two elements in Ecuador's development policy which signal a lower level of imports in 5 years time. The first of these factors is a conscious part of the GOE development goal.

Ecuador's industrial development is primarily based on import substitution in the consumer goods sector. The country is beginning to enter a period of substitution of imports of raw materials, intermediate products and small capital goods and as Ecuador's industrial sector expands it will require lower levels of imports of many of these items. Imports of larger and more sophisticated capital equipment, however, should continue to increase at a significant pace in the foreseeable future.

An associated second factor which will affect Ecuador's import trends over the next five or ten years results from emphasis on capital intensive and technologically led development. As a result of tariff and tax reductions benefitting capital inputs in industrial projects, industrial growth in recent years has been heavily labor saving. Employment has lagged behind the forecasts for the 1973-1977 Plan and underemployment is likely to remain a social problem

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in the coming years. Income will probably remain skewed in the absence of a major income redistribution effort. As a consequence, the growth in the internal market for consumer goods will be somewhat limited.

Thus the growth rate of imports should average about 10% to 15% per annum, toward the end of this decade, and decline perhaps to about 8% a year during the first half of the 1980's. If the Government continues its conservationist policy in petroleum production, it should be able to absorb revenues quite easily. But if oil production is greatly expanded in the next five to ten years, revenues will probably far exceed the country's import level in the next decade.

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Indonesia

Indonesia's oil revenues are of relatively smaller magnitude than other OPEC members, comprising 18% of GNP ($19 billion in 1974). At the same time, with a per capita income of $150, the need for capital investment and the scope for growth is large. Accordingly, Indonesia should continue to have little difficulty in utilizing its oil revenues.

Instead Indonesia will probably continue to face financial constraints as it seeks to enhance domestic economic growth. The small current account surplus in 1974 is expected to disappear in 1975, and a growing deficit to appear thereafter. To avoid this development the government hopes to double petroleum output by 1980, develop LNG exports, and to encourage the production of important import substitutes such as rice. The financial constraint may not be felt for several years if external aid and private capital flows continue at their current levels.

The most important physical obstacle to import expansion is Indonesia's limited port capacity. Cargo handling capacities in almost all ports are relatively low. Equipment and navigational aids remain inadequate. Wide-ranging port projects which include the design and engineering of new quays and warehouses, construction, dredging and dockyard rehabilitation, are to be completed in the next two to five years and should offer considerable relief to the physical limitation of ports.

Administrative inefficiencies arising from poor organization and low levels of trained manpower have hindered the effective utilization of external assistance, and retarded the speed of development. In fact, Indonesia was unable to utilize fully available external aid in 1974, and the size of the year-end aid pipeline rose to an estimated $1.7 billion. Reforms involving Pertamina, Indonesia's state-owned oil company, will interrupt the schedule of investment spending in a broad range of activities, until the reorganization is complete.

Indonesia's inadequate infrastructure has hindered the growth of import substitutes. For example, fertilizer and insecticide distribution has been slowed by the irregular and expensive transportation system. The second five year plan has allocated 19% of its funds to the development of agriculture and irrigation, and 15% to communication and transport related activities, which may aid in the development of import substitutes.

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In the last three years, Indonesia's imports have nearly tripled, soaring from $1.7 billion in 1972-73 to an estimated $4.5 billion in 1974-75. During the next decade the largest increase in import volume is expected to come from capital goods imports necessary to fulfill the country's ambitious development goals. The share of imported consumer goods should fall from 31.9% in 1973/74 to about 17% in 1980 and perhaps 10% in 1985. The share of intermediate goods and raw materials should rise somewhat from its 1973/74 level of 37% to about 50% in 1980 and beyond. Merchandise imports in 1974 prices could reach about $9.5 billion by 1980, and around $12.5 billion by 1985, if petroleum revenues can be doubled through expanded output. Even then Indonesia will probably be facing persistent current account deficits over the next decade which will require continued flows of foreign aid.

Libya

The recent increases in oil prices have radically increased Libya's national income to $4,600 per capita (in 1974). The maintenance of a high level of investment, to ensure that these income levels are sustained in the face of depleting oil reserves, has resulted in correspondingly high levels of imports. The future growth of imports, however, may be restricted if inadequate infrastructure facilities--especially port congestion--and shortages of skilled manpower cannot be overcome. Programs are now in train to deal with these problems but in the near term they will remain important constraints to absorption.

Gross capital formation has traditionally accounted for some 30% of GNP. This has been a major stimulant to imports as increases in capital goods imports have generally amounted to about 65% of increases in gross investment. Substantial capital formation has also engendered a rapid growth in the non-oil sector of the economy, which expanded from 33% to 50% of GNP between 1970 and 1973.

Libya is presently in the last year of its three year Development Plan (1973-1975). Expenditure targets of the plan were increased by over 120% to $8.5 billion in light of increased oil revenue. The plan continues the emphasis of previous plans on infrastructure development (1/3 of total outlays), with emphasis especially on port expansion, electrification, housing and public works. It also gives high priority (22% of total outlays) to increasing agricultural output in order to reduce Libya's reliance on food imports.

The Plan's allocation to industry, which comprises 13% of total outlays, seeks to maximize the use of the domestic resource base and produce goods for which there is a large domestic demand. Thus, most of the investments are being put into plants for construction materials and food industries. Complementing the import substitution goals of Libya's agricultural and industrial development plans is the emphasis that the Plan gives to the expansion of the export-oriented oil industry and ancillary facilities.

New projects either under way or proposed include: a $150 million desalination and electrical power complex in Tobruk--part of a $675 million plan to build similar complexes throughout the country; a $100 million oil refinery;

a $230 million petrochemical plant; construction and expansion of cement plants worth over $150 million; a $240 million expansion of Tripoli harbor; new housing projects worth over $200 million; and a $100 million prefabricated housing factory. In addition, an experimental nuclear power plant, new roads, bridges, as well as clinics, schools and universities are either under construction or being planned.

The revolutionary government has also included ambitious social goals in its development plan. It seeks to eradicate illiteracy by 1980 through increased outlays in education, especially in the construction of schools for children and illiterate adults, and universities. In addition, the government seeks to redistribute income to the low-income groups through increased taxation of the upper-income classes and increased government expenditures on health, education, housing and food subsidies. These programs are only in their initial stages and the problems they seek to alleviate are so large that Libya's consumption base will not be significantly widened in the next ten years in the absence of substantially larger expenditures than now contemplated.

Implementation of the Development Plan has been hampered by the continued intensification of manpower constraints arising in part out of the government's agricultural support program which discourages migration from the farm despite the increased demand for non-farm labor engendered by the Plan. Thus, 1973 development expenditures fell 27% short of plan targets and it can be expected that total actual expenditures will fall short of the Plan's targets.

Although Libya's small population of 2.3 million should encourage the use of capital intensive production, both skilled and unskilled labor are required at levels not presently available indigeneously. Only one quarter of the population is in the active labor force, due to both the age distribution of the population, the effects of the literacy campaign in delaying initial entry into the labor force and a very low (7%) participation rate for women. As a result, Libya has permitted substantial immigration, and the foreign component of its labor force has increased from 8% in 1971 to over 50% in 1975.

Libya's program to develop its infrastructure and train its manpower will not have an immediate impact and

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the implementation of capital projects should become increasingly difficult during the near term. Shortages of labor will also put pressure on wage rates. These constraints could discourage the maintenance of investment at the traditional proportion of 30% of GNP. If this proportion should fall, the decrease in the level of capital goods imports would probably not be entirely offset by increased levels of consumer imports. Moreover, this flagging growth in import levels could be reinforced by the falling growth rates of GNP that are bound to result from a projected leveling off of real oil earnings.

In addition to manpower and infrastructure problems and lack of resources other than oil, Libya faces a financial constraint on the revenue side in the absence of new oil discoveries. Although it had a $2.3 billion current account surplus in 1974--primarily due to the difficulty of making prompt adjustments to the surge of oil revenues, Libya's strict oil conservation policies will bring its current account balance to near equilibrium within a few years and make it a net importer of capital in the long-term. Libya's concern for its depleting oil resources, which accounts for 98% of its export earnings, is reflected in the heavy investment in oil exploration and in the emphasis in the development plan on import substitution and export diversification.

Since 1973, imports have increased in nominal terms at a rate of about 35% a year with imports in 1975 expected to reach about $4.1 billion. The concentration on developing improved infrastructure facilities and a wider industrial base should result in an annual growth rate of about 8% during the next few years to a level of $5.2 billion in 1980. Between 1980 and 1985, we can expect the annual growth rate of imports to fall to about 5% as domestic industrial production replaces imports and increased capital investment slackens off. Thus, in 1985 we can expect an import level of $6.5 billion. These levels would suggest a current account position that will be approximately in equilibrium in 1980, perhaps moving into a deficit of about $2 billion by 1985.

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Policy Implications

Objectives

The consumer countries have several basic policy objectives in their relations with OPEC countries which would seem to include:

a) Encouraging establishment of an OPEC oil pricing policy which would simultaneously permit a more efficient allocation of world resources and allow the OPEC nations to obtain a reasonable return on their major resource.

b) Avoiding fruitless confrontation which would create greater instability in the Middle East, increase the friction between consumers and producers in general, and render the economic objectives of both the consumer countries and OPEC difficult to acheive, and

c) Ensuring that current and prospective OPEC oil earnings have minimum disruptive effects on the world economy and its growth prospects.

The rise in oil prices has increased OPEC claims on the consuming countries' goods and services without increasing OPEC provision of real goods and services. These claims may be exercised in two ways -- OPEC importation of goods and services, or purchase of financial assets, -- but each case will represent a loss in well being to the oil consuming countries. The first policy objective addresses itself to the attenuation of this burden.

The discussion of OPEC absorptive capacity touches largely on the last two policy objectives, through its determination of how rapidly the transfer of real resources from the consuming to the producing countries will proceed. It must be stressed that, in the face of continuing high oil earnings, satisfaction over the lower than anticipated OPEC current account surpluses which have been evolving indicates a preference for substantial OPEC imports over OPEC foreign investment -- that is for the rapid transfer of real resources.

This preference, however, involves a number of complex considerations which do not yet appear to have been adequately explored. A number of arguments have been posited in support of each option, but many of them fail to hold up under intensive scrutiny. A brief discussion will help sort through the various policy considerations that spring from the absorptive capacity issue. From this discussion the conclusion emerges that attempts to influence the timing of the flow of real resources to the OPEC countries should be discouraged and that this would best be left to market forces.

Level of Transfer of Real Resources

If the obligations that the consuming countries have incurred are to be honored, there will eventually be a transfer of real resources. The choice is to transfer now or to transfer over the future. The quantity and value of the resources transferred to the OPEC countries will naturally depend upon the nature of the claims they hold, the productivity of capital and the course and anticipation of future prices. That is to say that the real resources transferred will be the same at any two dates if the rise in export prices is sufficient to offset the pecuniary return on the obligations held by OPEC. Even though anticipated general price movements will be a determinant of pecuniary return, recent history suggests a divergence between general and export price increases, and indicates a less than complete interest rate accommodation to the rate of inflation. Accordingly, investment of OPEC revenues abroad could result in a lower total transfer of real resources to OPEC over time.

The oil producing countries, however, are not likely to be indifferent between transferring the same quantity of goods at two dates. First, goods transferred now could be put into productive use, and so generate more goods than if the transfer of real resources was deferred (these might come through additional trade with consuming countries). Second, the present valuation of future consumption is likely to be lower than that of current consumption.

Capacity to Transfer Real Resources

Deferred transfer would in some respects, give the consuming countries greater flexibility to determine the conditions upon which the transfer would take place. This flexibility however may not lead to formation of a greater productive base from which to produce goods for future transfer. Any change in the level of productive capacity from what it would have been in the absence of real resource transfers will depend not only upon the investment propensity of the consuming countries' private sectors, but also upon government policies of the consumer countries.

First, the availability of financial capital does not automatically ensure increased demand for investment goods. The rate of capital formation will be sensitive to the level of idle capacity and this in turn will depend upon government policy directed toward influencing the level of economic activity. It will also depend on the sources that private firms traditionally employ to finance capital expenditures, particularly for those firms which rely on internally generated funds.

Second, exports directly and through the multiplier effect also generate income that can finance investment activity. Moreover, exports represent additional effective demand that will result in increased capacity utilization which in turn will spur demand for investment capital.

Finally, there is a fundamental question of whether an expansion of capacity requires foreign capital or income generated from abroad. This might be as readily achieved by appropriate domestic economic policies to influence the size of the domestic capital stock and the uses to which it will be applied.

The Short Term Financial Problem

While OPEC investment in the industrial countries would help increase their capability to eventually redeem OPEC claims through increases in productive capacity, questions have been raised concerning the short-term adjustment to higher oil prices. Indeed, the desire in some quarters to see rapid utilization by OPEC of its oil revenues has stemmed at least in part from a fear that high oil prices would create major recycling problems. Specifically, this would have resulted from 1) the inability of Western financial institutions to perform their intermediation function because of the sudden surge of liquid funds from the OPEC countries and/or 2) an insufficient flow of such funds to Europe -- the major oil importing area of the world -- on reasonable terms, thus forcing severe domestic policy adjustments.

These fears have proved unfounded on the basis of experience to date, and indeed there should have been no presumption that the necessary recycling efforts would be more difficult to accomplish than a sharp sudden expansion

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of exports of a magnitude necessary to cover the potential deficit, nor that financial intermediaries should prove to be the weakest link in the chain of transfers of claims. There was in fact no alternative to recycling in the very short term given the abrupt and massive shifts brought about by the increase in the price of oil. To be sure the adjustments to higher oil prices have been imperfect, but it is highly improbable that export expansion to OPEC countries would more perfectly match the pattern of increased expenditures for imported petroleum in the short-term.

During the past year the OPEC countries have demonstrated portfolio management objectives similar to most other investors. In particular, they have recognized the desirability of risk spreading both among geographical areas and types of investment assets. Moreover, the intermediary function performed by financial institutions in the postwar period, through a well established institutional framework and open capital markets, has traditionally assured a high degree of mobility of capital and last year was no exception. As a general proposition financial adjustments have continued to be executed by the market's rearrangement of interest rates, reconciling differing preferences for financial instruments as well as adapting the capital structure of financial institutions to new needs of the market. The creation of the OECD Solidarity Fund together with other existing arrangements will, of course, serve as supplements to the private market mechanism as each country attempts to adjust financially to higher oil prices.

Transfers During Cyclically Slack Periods

It has also been suggested that increases in exports to the OPEC countries would clearly complement domestic policy in periods of economic slow-down, but the practical case for encouraging transfers of real resources during such cyclically slack periods is weak.

In the first place, the absorptive capacity of OPEC countries is the main determinant of the rate of the export response to any policy shifts in the consuming countries, and because of the uncertain knowledge of this structure, attempts to manipulate OPEC demand would probably be unsuccessful.

Second, it should not be forgotten that in many cases increasing slackness may reflect an attempt to bring inflation under control, so that this goal could be compromised were export demand to increase. But there are also problems even where this is not the case and where an expansion of foreign demand would complement domestic economic policies. As a general matter, the tempo of expansion of both foreign demand and domestic supply is extremely uncertain. Increased utilization of capacity, spurred by export orders, can be accomplished only after a lag. Above and beyond this is the fundamental question of whether export led growth is essential to economic recovery or whether domestic policy instruments are adequate to insure recovery without the need to transfer real resources abroad.

There are other major problems as well. At some point, an expansion of domestic and foreign demand can quickly outstrip improved supply conditions and the pressures to curtail dynamic export markets would begin to mount. A policy of turning on and turning off exports to OPEC through the course of cyclical swings is not a viable long-term proposition. Yet, if not curtailed these exports put added pressures on domestic economies in times of total excess demand. Moreover, the effects within an economy of a cyclical slowdown are uneven. OPEC nations cannot be expected, however, to confine their purchases to the most depressed sectors in a cyclically slack period. Indeed their demand for imports from these sectors may be minimal or nil.

If transfers are delayed, the resulting infusions of OPEC financial capital might alleviate some of the financial stringencies that firms suffer during contractionary periods. But the firms in greatest need are generally those with the weakest capital structure, or those who find the cost of borrowing high relative to the return on their enterprise. It is doubtful that investments in failing firms would prove to be a very attractive proposition to OPEC countries. It is also doubtful that substantial OPEC funds would be invested at lower than market rates of return. There is the general question, moreover, of whether marginal operations can be sustained through special and, perhaps, one-time arrangements with OPEC countries.

Absorption and Oil Price Policy

There is also likely to be a significant relationship between the absorption rate of OPEC countries and their policies with respect to oil production and oil prices.

In the case of countries with relatively low levels of oil reserves and revenues, successful implementation of domestic development plans and substantial utilization of oil revenues for domestic purposes are likely to result in a decision either to seek higher oil prices or to increase oil production. The choice will be influenced by 1) the ease with which either course of action can be taken, 2) assessments of the supply and demand elasticities for oil over the short and longer terms, and 3) the relative importance attached to protecting long-term interests by accepting short-term discomfort.

The experience to date has suggested that when faced with revenue constraints, individual OPEC countries are more likely to opt for efforts to maintain production. It is not clear, however, that this process can or will continue, particularly if such action would represent a clear break of OPEC solidarity. But it is also not clear to what extent those countries whose revenues substantially exceed domestic needs are prepared to reduce further their own level of production to sustain oil price levels for the benefit of the other OPEC countries.

In the case of countries with relatively high levels of oil reserves and revenues, their continued inabilty to utilize a substantial proportion of oil receipts for domestic development purposes, and the consequent recycling of substantial levels of funds for the use of the consuming countries, might also prompt them to reassess their policy. The options open in this situation are the reverse of the revenue constraint case. Oil production that results mainly in the build up of assets abroad may suggest to individual OPEC countries that either production should be reduced or that some price relief should be extended for the sake of the interests of the rest of the world. Experience to date, however, indicates that the latter trade-off has unfortunately not dominated the thinking of these few producers.

The present situation, of course, contains elements of both of the cases described above. Compatibility has been found in a combination of price and production cutbacks. The question, of course, is whether this pattern can or will be perpetuated if the disparities between revenues and need continue and/or accentuate, or whether different OPEC policy responses will evolve. The outcome will naturally depend upon a number of factors including the ability of the OPEC countries to use their oil revenues for domestic development.

<u>Constraints on Policy Actions By Consumer Countries</u>

Should consumer countries decide to emphasize either exports to OPEC countries or OPEC investment in the industrial world, the question becomes whether the consumers can influence this course of events, and, if so, how. There are obvious problems and pitfalls.

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Many governments in one degree or another must operate in an environment of both significant private sector control of, and interest in commercial exchanges. Governments in their efforts to spur exports or investment inflows must recognize the limitations imposed by both of these facts. It is difficult to restrain or prevent firms' efforts to maximize commercial exchanges that will directly benefit their shareholders and communities. Conversely, it is difficult to persuade firms to commit themselves to unprofitable operations.

Policy decisions which would attempt to channel oil revenues in a particular direction risk preferential or exceptional approaches and a departure from basic policies. Development of OPEC industrial capacity will almost certainly enhance desires for preferential access to consumer country markets. We have already witnessed some pressure in this direction. Growing OPEC investment abroad, on the other hand, could lead to pressures to limit such investments in additional sectors and/or conversely may require special inducements. All of this would further distort the world's economic structure.

Another factor which the consumer countries must guard against is a possible tendency toward a competitive race among them for OPEC markets or investment capital. While such promotional efforts would not necessarily render long-term balance of payments adjustment within the consumer bloc more difficult if exchange rates remain flexible, the end result could be an even greater transfer of real resources to OPEC countries, since increased costs from exchange rate adjustments might not offset the savings to OPEC from subsidies, etc. Moreover, economies heavily reliant on specific foreign markets are no less vulnerable to them than are the countries heavily reliant on specific sources of oil.

Conclusion

There are, of course, factors other than those discussed above which bear on the real resource transfer problem, but most of the main economic considerations have been covered. These would suggest in varying degrees of force that a policy of permitting both merchandise and capital flows to be determined primarily by economic forces would be the most prudent course for the consumer countries. The emphasis individual OPEC members will place on domestic versus foreign investment will shift over time according to their investment plans. The diversity of such plans among the OPEC countries, and the highly uncertain manner in which they will be carried out, suggest that the most flexible economic institutions, to wit free markets, are best adapted to the orderly transfer of real and financial resources. A plethora of nonmarket arrangements in such a fluid situation is almost certain to hamper effective adjustments among the industrial countries.

Beyond this, emphasis on economic efficiency will help ensure producer country investment in areas where their comparative advantage will be the greatest. The same criterion would ensure a substantial flow of investment capital to the West, both directly and indirectly. World income would of course be maximized, and the burden which oil price increases have imposed on the consuming countries would probably be eased. Flexible policy instruments will also enable consuming countries to take maximum advantage of the return flow of OPEC capital.

Annex

Trends in the OPEC Current Account Position

Developments in 1974

The most recent available data indicate that the OPEC current account surplus in 1974 reached $59 billion, excluding government grants (when oil receipts are recorded on a payments basis). This is somewhat lower than a number of initial forecasts made last year which anticipated surpluses in the range of $65-70 billion. The initial forecasts did not fully anticipate the extent to which OPEC import demand would respond to the high level of oil earnings. It became apparent, however, over the course of 1974 and early 1975, that estimates of growth of imports were too low, and many projections were revised accordingly.

Comprehensive, accurate import data remain unavailable. The statistical reporting systems of some countries do not pick up all imports and the true current account position of the OPEC countries may never be known. Presently available data including export data for the major industrial countries suggest that the increase in OPEC imports last year was approximately 80%. Price increases on average accounted for somewhere around 25% of this increase.

OPEC's non-oil exports also rose sharply, by nearly 40% above the level of 1973. The major factor was the boom in commodity prices, although for Indonesia which accounts for 40% of all OPEC non-oil exports, volume increases were also large.

We would estimate that the deficit on services rose somewhat last year to $4.8 billion. Investment income increased sharply as a consequence of the build up of assets abroad, but this was more than offset by freight and insurance payments associated with the dramatic jump in OPEC imports, as well as an increase in workers remittances, particularly, in the Persian Gulf countries.

The balance of payments data for 1974 show striking contrasts between the OPEC members. Three countries, Saudi Arabia, Iran and Kuwait, account for almost two-thirds of the OPEC surplus. Of the remaining eight members only Nigeria, Venezuela and the UAE had significant surpluses. The dissimilar financial accumulations were primarily the result of different levels of oil production. Although imports increased markedly in all OPEC countries, there were

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significant differences among them. At the extreme the imports of Iraq and Iran increased nearly 200% and 125% respectively, while the imports of Libya and Nigeria rose less than 40% in nominal terms.

Outlook for 1975

The OPEC current account surplus for 1975 should be down sharply from last year. This should result from further large increases in imports, but much smaller increases in oil revenues due to cyclically depressed demand in the industrialized countries during the first half of 1975, stock drawdowns, a mild winter and some demand response to the oil price increases. Although the value of imports should increase by about half last year's rate, a sharp decline in import price increases to about 12% will mean that the reduction in real terms will not be as great.

We would also expect to see little change in the services deficit this year. Investment income will continue to mount, but so will freignt and insurance payments. Workers remittances, travel expenditures and payments on government debt will continue to be substantial and together will be nearly as large as either investment income or freight and insurance payments. A light reduction of about $300 million in the services deficit is projected.

The distribution of the surplus among the OPEC countries is likely to become even more skewed during 1975. We would expect the share of Saudi Arabia, Iran and Kuwait in the total surplus to grow at about 80%. Algeria should emerge as the first OPEC country to run a sizeable deficit, as it finances its expanded import program through international borrowing. Surpluses should disappear for Ecuador and Indonesia, and the current account of Iran and Libya are likely to approach near equilibrium positions.

OPEC Investible Surplus

1973
($ million)

	Oil Exports (Gov't Take)	Non-Oil Exports	Imports F.O.B.	Services and Private Transfers	Investible Surplus
Algeria	1000	360	-2060	-170	-870
Ecuador	100	310	-460	10	-40
Indonesia	1200	1610	-2410	-750	-350
Iran	4500	590	-3600	-400	1090
Iraq	1700	110	-1160	-180	470
Kuwait	1900	230	- 920	310	1520
Libya	2300	-	-2200	-700	-600
Nigeria	2400	620	-1780	-980	260
Qatar	400	10	-180	- 90	140
Saudi Arabia	5500	20	-1800	-600	3120
United Arab Emirates	1200	40	- 860	- 90	290
Venezuela	3000	375	-2820	-690	-135
Totals	25,200	4275	-20,250	-4330	4895

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OPEC Investible Surplus

1974
($ million)

	Oil Exports (Gov't Take)	Non-Oil Exports	Imports F.O.B.	Services and Private Transfers	Investible Surplus
Algeria	3700	355	-3710	60	405
Ecuador	500	450	- 790	-50	110
Indonesia	3400	2200	-3890	-1480	230
Iran	18,700	800	-8000	-820	10,680
Iraq	5700	150	-3460	-420	1970
Kuwait	8000	390	-1480	425	7335
Libya	6200	40	-3000	-700	2540
Nigeria	7600	850	-2490	-740	5220
Qatar	1600	10	- 270	- 50	1290
Saudi Arabia	24,600	25	-3530	-295	20,800
United Arab Emirates	6000	20	-1600	- 60	4360
Venezuela	8900	375	-4660	-620	3995
OPEC Total	94,900	5665	-36,880	-4750	58,935

August 29, 1975

OPEC Investible Surplus

1975
($ million)

	Oil Exports (Gov't Take)	Non-Oil Exports	Imports F.O.B.	Services and Private Transfers	Investible Surplus
Algeria	3630	350	-5670	-300	-1990
Ecuador	375	550	-930	-90	-95
Indonesia	3675	2380	-4680	-1660	-285
Iran	19,875	1000	-10600	-660	9615
Iraq	7580	200	-6600	-670	510
Kuwait	7890	530	-2100	805	7125
Libya	5150	100	-4100	-500	650
Nigeria	6715	900	-5100	-610	1905
Qatar	1755	10	-380	-70	1315
Saudi Arabia	26,685	30	-5660	-100	20,055
United Arab Emirates	6475	10	-2200	-70	4215
Venezuela	8320	510	-6510	-550	1770
OPEC Total	98,125	6,570	-54,530	-4,475	45,690

August 29, 1975

UNITED STATES DEPARTMENT OF THE TREASURY

Washington, D.C.

PRESS CONFERENCE

Held by:

EDWIN H. YEO

Under Secretary
for
Monetary Affairs

2:30 p.m.
Friday, September 5, 1975

Meeting Room 4
Sheraton Park Hotel
Washington, D.C.

STAFF PRESENT:

LISLE WIDMAN

CHARLES A. COOPER

SAM CROSS

JOHN BUSHNELL

INTRODUCED BY:

JOHN P. PLUM

The above-entitled press conference was convened, pursuant to notice, at 2:30 p.m.

MR. PLUM: This is Mr. Yeo.

UNDER SECRETARY YEO: Good afternoon. Does everyone have their headphones on? I feel almost without clothes without the headphones -- I became quite used to them after a week of very hard work. In my opening comments, I have a few personal reactions.

One, I think it was a week of accomplishment, a week in which things were done, not for the sake of simply doing, but good agreements were reached which involved some give on a variety of fronts by a variety of parties. It produced agreements that were for the overall good, and also underlined the fact that these fora not only involve useful discussions, but also present the framework in which decisions can and are made.

I have been impressed personally by the high degree of cooperation, the forthcoming spirit which characterized our conversations, and the close personal relations of the participants, and the way in which those relationships contributed to the resolution of several important and difficult issues.

Those of you who attended our pre-meeting press conference, I am sure were gratified that the Interim Committee did involve itself with economic discussions. Economic discussions were very much on the agenda, and I can tell you that they were meaningful discussions.

As a personal proposal, I think that the Interim Committee's activities in the future might well concentrate in part on serving as a vehicle, a framework for continuing economic discussions. If you look at the history of the Interim Committee, examine it, this is really what it was developed to do. It does not represent a cop out in terms of hard issues, because as you saw, hard issues were discussed parallel with economic issues. And I am not even sure that it is fair to say that economic issues are not hard issues, hard in terms of meaning, and hard in terms of resolving various points of view.

The Interim Committee, in terms of the troika of issues before it, has one issue left, the exchange rate issue, which we are very hopeful will be able to be resolved; that the Committee will be able to resolve at its January meeting.

Beyond that, I would suggest that its original mandate to serve as a vehicle for the exchange of economic viewpoints be acted upon and be taken up. And that is one of the ways, one of the directions in which the Interim Committee could evolve.

That is all I have in the way of an opening statement. I will be happy to try to answer your questions.

QUESTION: Mr. Secretary, there has been some concern expressed about the wild volatility of exchange rates, especially between the dollar and the German mark. The economists can say it has little economic meaning. Do you anticipate that the U.S. government will attempt to moderate these fluctuations in the future?

UNDER SECRETARY YEO: The exchange rate mechanism not only reflects economic developments on the real side, but it also reflects economic developments on the financial side. I think that that is a very important distinction.

It is quite true that broad measures of economic developments do not seem to have the same variability as rates, even though in recent months, the degree of variability in rates has been reduced substantially, reflecting a growing equilibrium in the real sector.

After ten years of inflation, we have one of the financial legacies of such a period, which is an accumulation of short-term assets, and short-term claims. Inflation is financed in the short end simply because potential holders of assets have a reduced appetite for holding long-term assets.

As the result of financing inflation in terms of short-term finance and the short-term areas of the markets, we have accumulated a substantial quantity of short-term funds, assets, claims that move very quickly. This is one of the factors in addition to underlying disequilibrium on the real side, that has been responsible for the variability in rates that has occurred over the last several years.

It is also one of the factors that increases our own respect for the elasticity and flexibility of a voluntary system under which those that wish to peg, may peg; and those that wish to float, may float.

Those capital movements, capital movements being one of the euphemisms, shifts of flows of funds, are very large and very powerful, and are best absorbed within the elasticity of a flexible system, a voluntary system where we are able to float and others are also able to float.

QUESTION: Mr. Yeo, from what you have just said, could one, in fact, conclude that you rejected the suggestions by Mr. Alfred Hayes in his lecture earlier this week? Mr. Zijlstra, and also the IMF has said, as well as I think the Germans and several others, that there is a need for greater management of floating rates?

UNDER SECRETARY YEO: Our own view is that we feel that intervention is necessary only under conditions in which markets have become disorderly. As a fellow who came out of the market, I can tell you, you will have as many definitions of disorderly as you have for disciplines. Our definition is a limited definition, and it means a situation in which markets are not functioning well, rather than the particular rate movement associated with markets

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at any given time.

The way to reduce rate volatility in our view is to move respective policies in the direction of stabilization of domestic economies. And through that mechanism, through that effort, we have the greatest promise of stability.

The reciprocal of that is a great respect on our part for the variability of economic developments during a period such as we are in, and the size and power of flows of funds that have accumulated over ten years of financing inflation. So that I would not want to be in a position of rejecting; I rather would reaffirm our own view as to the desirability of intervention.

QUESTION: You belong to the Interim Committee, and you indicated the Interim Committee might be on a permanent basis, be a place where other economic issues could be discussed. Would you think that the Interim Committee could discuss the interest harmonization between Europe and the United States, or such other items?

UNDER SECRETARY YEO: I would not want to be in a position, having made a recommendation that we would have general economic discussions, to set forth a proposed agenda. I think that there is a difference between consultations and the type of activity that you describe. So that I can be very clear, I am proposing consultations and discussions.

QUESTION: From developing countries, when does the United States propose to reach the figure they wanted to reach by 1980? The developed world is supposed to transfer one percent of its GNP to the developing countries. When does the United States propose to reach the target?

UNDER SECRETARY YEO: The formula to which you are referring was a formula agreed to by some countries, one percent of the GNP of the United States. The United States has not agreed to that formula or any other formula. We look at each program on a program-by-program basis.

QUESTION: Considering the divergence between views Mr. Simon has outlined and the French have outlined on rates, it is difficult to see what the basis is for hope that agreement to compromise could be reached in January. Can you tell me why you are hopeful that this could be worked out by January?

UNDER SECRETARY YEO: I can't tell you precisely why I am hopeful, but I can point out that many people had the same general view regarding gold and quotas ten days ago. I would not underestimate the sense of change, the harmonization of attitudes if not ideas, that has characterized the last ten days.

We do not go into this position, into this period that is coming up, the remainder of this year, in a dogmatic, or for that matter, doctrinaire frame of mind. We have our ideas, we have expressed our ideas, which we are really obligated to do and want to do, and there have been expressions of other ideas, differing points of view on the same subject. If we all agreed, there would be no negotiations. But that is really the premise on which I expressed my hope for results by January.

QUESTION: Do you think that the proposal outlined by Dr. Witteveen for suspending the present articles and running the exchange rate system under a schedule is a basis for confidence?

UNDER SECRETARY YEO: We think that it is certainly an idea that ought to be considered. There are other possibilities, and it is certainly one avenue that will be explored.

QUESTION: Will the central banks purchase gold when the Treasury and IMF sell gold?

UNDER SECRETARY YEO: The articles of the IMF are still in force on the subject until amended. That is our view.

I might say something about the agreements on gold. These are overall agreements. There is some very intense and very necessary staff work that is ahead which is necessary to get these agreements implemented. And I am not going to attempt to pre-empt that staff work or pose as a legal expert on some aspects of the implementation of these agreements.

QUESTION: I have the impression -- correct me if I am wrong -- that France and South Africa are both delighted with the result of the interim agreement on gold. I understand, from what Mr. Simon has said, that similarly, the United States is delighted with the agreement. Now, when both parties are in agreement, does that mean that gold in effect will be rephased back into the monetary system, or gold will be phased out of the International Monetary System?

UNDER SECRETARY YEO: That mutual satisfaction that you speak of is the stuff of which agreements are made. We have the view that with the abolition of an official price of gold, elimination of IMF authority to accept gold, with the prospective sale of one-sixth of the IMF gold, and with the agreement by G-10 that there will be no action to fix the price of gold, and with the G-10 gold cap, that it is unlikely that gold is going to move back into the center of the monetary system, and that we are pursuing or proceeding along a path that we have described to you and many others many times.

I might say in addition, that in a period such as we have been operating in with wide price expectations, it is most unlikely -- this is just an observation -- most unlikely that an official settlement would occur in gold.

QUESTION: Would that be on a de jure basis

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or on a de facto basis? When you list these various ingredients, would you say well, phase gold out of the international monetary system? For example, a country such as Uruguay, where their central bank can borrow on gold, it in effect makes gold an official reserve and makes it as de facto transactions are concerned.

UNDER SECRETARY YEO: I don't think that that really has a central relationship to the question of whether gold is moving back to center stage or out on the wings. It is our view that for the reasons, not just our opinion, but for the reasons that I mentioned, that gold is moving to the wings. And complementing that I think our fundamental economic development is reinforcing that tendency.

QUESTION: Would you spell out again what is the final position of the United States as far as the sale of the 25 million ounces of gold is concerned? Can it go on before January or can it not? And if so, if not, when do you expect the sales may begin?

UNDER SECRETARY YEO: Sam Cross, do you want to answer that?

MR. CROSS: The question is, when the various parts of the gold sale could begin. There are some differing views on this. I believe it was stated, it has been stated that the Fund does have certain legal authority due to certain legal provisions to begin disposing of its gold under the present articles without amendment, and that steps could be taken if there were an agreement to do so to move the gold at any time, or to begin to move the gold at any time, to dispose of it for the purpose of beginning to accumulate some funds, for the purpose of helping the LDC's.

MR. PLUM: We will take two more questions.

Yes, Sir.

QUESTION: Mr. Yoe, can you confirm that the Interim Committee has informally agreed to leave all further discussion on floating exchange rates to the USA and France leaving all others out, and that the oil exporting countries have expressed sympathy with the French view on floating exchange rates?

UNDER SECRETARY YOE: I can confirm that there is no such agreement, that the full Interim Committee will deal with the exchange rate issue. That is not to preclude discussions among a variety of participants, but the exchange rate issue will be decided by the Interim Committee and in the Interim Committee.

I am sorry, I did not get the second part of your question.

QUESTION: About the support. Have you heard of support from the OPEC countries for the French position on floating exchange rates?

UNDER SECRETARY YEO: We have heard a variety

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of countries express their views over the last week. Our general impression, just as an observation, is that many countries have found the present voluntary system a congenial one. The exchange rate system that we would propose we call a voluntary system, and those countries that wish to peg can move to a fixed exchange system. They are certainly under our proposal free to do so. On the other hand, those countries that wish to continue to float are free to do so.

MR. PLUM: Any more questions? Yes.

QUESTION: I have a question about the sale of gold. Is there a cutoff date for the sale of gold to end? In other words, how long would it take to sell the one-sixth amount of gold, and when do you achieve that $3 billion that you hope to get out of the sale of gold?

UNDER SECRETARY YEO: There is no cutoff date. I cannot speculate on the length of time that will be involved.

MR. PLUM: Shall we take one more question?

QUESTION: I believe that Mr. Yeo himself stated about a week ago, and that Mr. Simon reiterated -- I'm sorry. Mr. Yeo stated first about a week ago that the United States position on the bundling of the gold issue and the exchange rates issue was not something that the United States will be pushing. But Secretary Simon, after the unbundling, at least in theory, did go through, and it was a bit of a humiliation for the United States, that the United States was able to push on the bundling because there was a mandate from Congress to do so. I am not aware of any such mandate, and people we have questioned on the Hill are not aware of that. I was wondering if you can clarify this.

UNDER SECRETARY YEO: I am sorry. Perhaps you could restate that. I don't remember my saying that. I think that what I said at my last press conference was that we could have unbundling in the sense of reaching agreement on issues taken away from the three and dealt with separately. Indeed, that is what has happened.

I think I also said that any agreement on one or two of these three issues would have to be presented to Congress along with agreement, ultimate agreement on any issue not unbundled so that we would present Congress with an agreement on all three issues, reaching agreement in stages.

MR. PLUM: Thank you very much.

(Whereupon, at 3:05 p.m., the press conference was concluded.)

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The National Broadcasting Company Presents

REASURY

MEET THE PRESS

America's Press Conference of the Air

Produced by LAWRENCE E. SPIVAK

Guest: WILLIAM E. SIMON
The Secretary of the Treasury

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Panel: LEONARD SILK, *The New York Times*
HARRY B. ELLIS, *The Christian Science Monitor*
LEE M. COHN, *The Washington Star*
IRVING R. LEVINE, *NBC News*

Moderator: LAWRENCE E. SPIVAK

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MEET THE PRESS

MR. SPIVAK: Our guest today on MEET THE PRESS is the Secretary of the Treasury, William E. Simon.

Before taking his present post in May, 1974, he served as the first administrator of the federal energy agency. He came to Washington in 1972 from a career in investment banking in New York City.

We will have the first questions now from Irving R. Levine of NBC News.

MR. LEVINE: Mr. Secretary, you and other members of the administration have repeatedly warned of the dangers of inflation to our economy. Yet the most recent monthly Consumer Price Index shows the inflation rate going up at an annual rate of over 14 percent a year, and the Wholesale Price Index which came out just two days ago shows wholesale prices going up at an annual rate of just under ten percent. What do you see as the outlook now for inflation?

SECRETARY SIMON: I don't think that the outlook, Mr. Levine, has really changed at all. We know we have a serious inflation problem—a base rate of inflation as we pull out of this recession of somewhere in the area of 7 percent.

I caution though that we not take one or two months' statistics as an indication of permanency. We have made significant inroads in our battle against inflation, in the war, if you will, against inflation. The GNP deflator is down in the second quarter of this year to five percent versus almost 15 percent in the fourth quarter of last year. The Wholesale Price Index is down from over 30 percent in the third quarter of last year to five percent in the second quarter, the Consumer Price Index, cut in half. That doesn't mean we have won the war. We have won a battle, but we have to continue our vigilance in this, our true long-term enemy.

MR. LEVINE: A good many business leaders and economists take a more alarming view about this new burst of inflation and

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express the fear that it may interrupt the rather feeble business recovery we are now experiencing. What is your reaction to that view?

SECRETARY SIMON: I think that the figures have been obviously disappointing, but again I do not take those as a long-term trend. It was due to food and food processing and the passing-through of increased energy costs. These are on the special factors side and will pass through the economy. But this doesn't mitigate the fact, as I said a minute ago, that we have a serious long-term inflationary problem that is going to take several years to cure.

MR. LEVINE: Do these recent figures lead you to believe that some additional steps should be taken by the administration, and, if so, what should they be?

SECRETARY SIMON: I don't think that additional steps must be taken. We have the policies in place, the fiscal and monetary policies that we are attempting to bring into balance, that over the long run are going to solve this problem.

The important thing is that this problem didn't come about overnight. It came as a result of irresponsible and excessive fiscal and monetary policies over the last decade, and we are not going to cure the sins of this past decade by a day of penance.

(Announcements)

MR. SILK: The administration has said that it can't help New York City out of its fiscal crisis unless city officials produce a credible program for solving the New York City problem, but then you say: If New York City does produce such a plan, the federal government will have nothing that it needs to do. Isn't this Catch 22? Isn't there anything the federal government can do to help New York City to avoid default and to solve its longer-range problems?

SECRETARY SIMON: Let's put this whole issue in the proper perspective and talk about my responsibility as Secretary of the Treasury, which I perceive to be the maintenance and protection of the fiscal and financial integrity of the United States and its dollar, which has been seriously eroding and deteriorating in recent years. We have an inflation problem that I have just alluded to. We have had politicians that for years we have been electing on the credo of spend, spend, just more and more, promising more than they can deliver, and the end result is inflation. We have finite resources, we have finite savings to finance our future in the United States, and when you imply that the federal government should, as has been implied, guarantee the state and local debt, this brings up serious financial questions and serious financial consequences, not to mention the inflationary consequences. Lets look at what it does: It creates a new series of debt because equity demands that if we do it for New York City, we have to make it available to all other states and local governments, in excess of $20 billion of borrowing each year. It creates a new security that would literally be better than the federal government's own security because it would be tax-exempt and government-guaranteed, thereby further pre-empting credit in our private capital markets that we have already crowded-out substantially in the past ten years to finance $150 billion of budget deficits and then the off-budget gimmick that was created by the politicians to avoid the budgetary process—a third of a trillion dollars, $300 billion, we have financed for both these type programs, taking money from the productive sector that provides 85 percent of the jobs in the United States, money that could have gone for housing and the creation of new jobs.

That is what we have been doing. But, most importantly, what does it do? It puts the federal government directly involved in the fiscal and financial affairs of state and local governments in the United States, and this in my judgment contravenes the constitutional principle of federalism. I would think Thomas Jefferson and others would be twirling in their graves, because if we have to involve ourselves in the financial affairs and give guarantees, then we have to protect the federal interest, and, as a result, we would have to say, "Well, we will tell you when to borrow, how much you can borrow and what your priorities are." That is not what this country is all about.

Imagine an angel of mercy in the guise of a GS-16, a federal official, would come down and say, "We need this in the federal government."

I believe in states rights, and I think this would be an intolerable precedent.

MR. SILK: Not all city problems are peculiar to the city. Take welfare, for example, with people coming in from all over. Isn't there need, even if New York City did all the budget-cutting anybody could imagine and if, as a result, the city deteriorated and income continued to decline—that there would need to be federal programs, including picking up a part of the welfare burden?

SECRETARY SIMON: I think the whole subject of the welfare debate—and I most certainly have been a critic on the issue of welfare as far as the federal government is concerned for a long time—I have long favored an income-maintenance program recognizing that the United States government has the responsibility to take care of those unfortunate people who cannot take care of themselves, and yes, that debate is going to start. President Ford has directed Vice President Rockefeller as Chairman

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of the Domestic Council to commence an overall study with the eye to recommendations on the welfare system, but this is a longer-run, necessarily, answer to the question.

In the short-run, [if] New York City presents a credible budget and credible fiscal policies, they will be allowed to re-enter the capital markets again.

MR. COHN: Getting back to the national economy, even if the administration's forecasts turn out to be accurate—and there is some doubt about that—at the time of next year's election campaign, unemployment will be higher, inflation will be worse than almost any time since World War II. How can the Republican administration and the Republican Congress expect to be re-elected under those circumstances?

SECRETARY SIMON: I think the most important thing is the direction that the economy is moving in, because no one has the ability to forecast the future exactly—with the exact numbers of unemployment and what real growth is. The fact is, our forecasts have erred on the side of conservatism [in] that the economic recovery commenced earlier than we expected, and now we perceive its quality and indeed the size of the real GNP growth to be greater than anticipated.

MR. COHN: Where do you expect unemployment and inflation to be, approximately, when the voters are going to the polls next year?

SECRETARY SIMON: Again, it is impossible for me to forecast exact numbers, but we will continue to make progress on both fronts and will continue to have positive real growth moving into 1976 and a declining unemployment rate, and it is going to decline a lot faster than the budget projections which Arthur Burns and I have said on many occasions—we do not perceive this pessimism to be accurate.

MR. ELLIS: Further on unemployment, in the last five months about 1.5 million more Americans are at work than previously, but still the jobless rate is stuck at 8.4 percent. My question is, how many jobs year by year must our economy create to bring down the unemployment rate and to take care of newcomers to the labor force?

SECRETARY SIMON: First of all, we have to bring the economy back to full employment, which is slightly in excess of three million jobs from this level. Then, between now and 1980, we have to provide for two million new jobs each year, new jobs, new entrants to the labor force, and a million and a half jobs, new jobs, after that.

MR. ELLIS: My question then would go further: Would that creation of new jobs, even if it proves possible, help the teenagers and the blacks whose unemployment rates are disproportionately high? How do you help these people in our economy?

SECRETARY SIMON: This is a question that is extremely difficult, and we continue to work on the social problems that are attendant with the minorities and the teenagers and the structural problems that we have got in our employment force. Certain parts of it can be done in a legal sense, and we do that to every extent that we can. We have to continue to provide the equal opportunity that has always been present in this great country of ours.

MR. SPIVAK: According to The New York Times, **you said the Ford administration** was **unlikely to act in the New York City financial crisis, but that it might step in afterwards to soften the impact. What** sense **does that make?**

SECRETARY SIMON: I think that we have a responsibility in the federal government to take care of any hardship that might occur if New York City defaulted, and I say "if" very strongly because a New York City default can be avoided and it should be avoided. It can be avoided by taking the tough steps that have to be taken.

As far as what effects there might be, you look at the bankruptcy law, which is certainly inadequate to make sure that there will be an orderly transition, if there was a default. We have to make sure that federal assistance payments for our many programs continue to flow through the city. And, of course, most importantly, the Treasury Department is working with the banking agencies to assure the continuing functioning of our banking system, which we will.

MR. SPIVAK: You think that New York City can still, within this next week, which I think is about all it has, avoid default?

SECRETARY SIMON: The Governor and all the legislators in Albany are presently working on a program that can avoid this, and I hope they act with deliberate haste.

MR. LEVINE: You have spoken of the vigor of the recovery which has taken place, and at a news conference last week you indicated that the recovery from the recession may be vigorous enough to eliminate the need for a continuation of this year's tax cut next year. But in an election year is it inevitable that the tax cut will be continued?

SECRETARY SIMON: That premise has been presented to me by several members of Congress, and my reply to that has been that I would hope for once we begin to make good economic

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judgments on matters and not political ones, that good economics are good politics, not the reverse.

MR. LEVINE: And you would consider it good economics not to have a tax cut next year, but in fact what would amount to a tax increase?

SECRETARY SIMON: The point is that it is too early to make that assessment, as we have continued to say. The tax cut discussions are going to be held over the next 30 to 60 days, when much more evidence of the economic recovery and the extent of same will be in, and at that point if the recovery is disappointing in any way, as I said, I wouldn't hesitate to urge the President to recommend to the Congress for another increase.

MR. LEVINE: But, Mr. Secretary, the administration and you have been saying now for three or four months that there is no rush, but the legislative timetable is such that you will have to make up your mind within the next few weeks on this. Certainly you must be leaning one way or another.

Is it fair to assume from your recent remarks that you are leaning against the continuation of the tax cut next year?

SECRETARY SIMON: No, I would not wish to prejudge what I would recommend to the President because, as I say, the economic statistics that we will have 30 to 60 days from now are going to be extremely important. Also, the action on the oil price increase is going to be an important consideration.

MR. SILK: According to our paper, you are reported to be in agreement with Alan Greenspan, who has written a memo warning that Vice President Rockefeller's $100 billion plan to create an agency for making energy loans would create a large potential for real and perceived corrupt practices—those are the words used in the memo—plus waste, plus a great deal of competition with the private sector. Is that in fact your position, or do you support the Rockefeller $100 billion energy plan?

SECRETARY SIMON: Let me tell you exactly where I stand. I favor United States government involvement in certain areas of the energy problem, areas that the private sector cannot develop because certain of the more sophisticated future synthetic energy sources are non-economic, and therefore money will not flow to them, such as massive oil-shale, fission, fusion, and other sophisticated forms. The debate centers, not on favor, unfavor, but the extent of the corporation and its powers and what indeed it would do, and that is the discussion that is going on with the President right now.

MR. COHN: You conferred with the Finance Ministers of the oil-exporting countries during last week's International Mone-

tary Fund meeting. What impression did you get from them on the prospects for an oil price increase next month?

SECRETARY SIMON: It would be sheer guesswork on my part to assess whether there will be an increase or not. That is a political question, not an economic one.

I find that the Finance Ministers of most of the OPEC nations were moderate. They understand what their responsibilities are, that a significant increase would indeed damage the delicate balance in the world revival of expansion in all the economies. Of course, there are those countries that, as a result of their spending, domestic spending programs, would like a price increase to get more monies to spend in their own economies, and they are using phony economic and financial arguments.

I have no idea who will win, but I would certainly hope that the moderates do. There is no justification for the present price, much less any increase.

MR. COHN: If the oil exporters go ahead nevertheless and raise prices and if domestic oil prices are decontrolled, how can you be confident that the recovery will proceed? Why will these price increases not devastate the economy as they did in 1974?

SECRETARY SIMON: Devastation is a strong term, and in 1974 the price was quadrupled. A slight increase—if they do increase the prices—we would have to assess exactly what was going to occur as far as its fiscal impact on its economy, and also it is unclear whether or not we are going to have decontrol. What will happen this week will be important in that regard.

MR. ELLIS: We have talked about jobs and inflation, and now to look a little farther down that road, our economy has been built and has grown fast on consumer expectations of more, always a higher standard of living, and in part it seems to me this easy credit has led to our present difficulties.

My question is, should Americans be told that in the future their expectations simply cannot rise as they have in the past, and if they should be told that, can the economy grow as it has been accustomed to do?

SECRETARY SIMON: Why, of course. All it requires is a slight shift in the policies that you so correctly describe that promote consumption and living for today at the expense of savings and investment.

I think it is striking when you talk about productivity and the standard of living—you know there is only one way to increase our standard of living, and that is to increase productivity, which is directly related to capital investment. It means more jobs, higher real earnings, cheaper goods and services for consumers.

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MR. ELLIS: But as we go down this road, relatively speaking, as the population ages, there will be more retired people depending on relatively fewer working Americans. Can our system, as we now know it, survive without major change, or must we have changes in our economic planning in order to take care of those who need it?

SECRETARY SIMON: I think we need changes. As I say, we need to shift the balance, just shift it from one that promotes consumption to one that promotes savings and investment, so that we can get back on the increased productivity where we were for 20 years after World War II.

MR. SPIVAK: Recently you called the foodstamp program a haven for "chiselers and ripoff artists," and you said that was one example of letting the government solve problems that people should solve for themselves. Are you in favor of abolishing the food stamp program entirely?

SECRETARY SIMON: I most certainly am not, and let's put this food stamp statement I made, along with many other similar statements on the part of leaders all over the country, and officials, in the proper perspective.

The food stamp program was started to help the poor, to maintain a balanced nutritional diet which all Americans should be entitled to, and I strongly support the program for the poor. The problem with it is that the eligibility requirements are so loose and lax that almost anyone—

MR. SPIVAK: What do you think ought to be done about it?

SECRETARY SIMON: We have to change the eligibility requirements to make sure that the food stamp program be directed to the needy, not to the greedy.

MR. LEVINE: One of your responsibilities in the Treasury Department is the Secret Service. The New York Times **editorial yesterday stated that, "It is startling, after the Secret Service tightening of its procedures in the wake of the assassinations of the 1960s, that a vociferous member of the Manson family would wander so easily into the path of a strolling President."**

What is your response to that comment? Do you have any plans for reviewing the Secret Service procedures?

SECRETARY SIMON: The Secret Service procedures are as adequate as any procedures can be in carrying out their duties of protecting the various people that they protect by law, and they carry it out in a way that I think is as professional, if not more professional, than any other agency in the world in carrying out these duties.

MR. SILK: Mr. Secretary, on decontrol of oil again, Congress is going to vote this week, and if Congress should sustain the President's veto of the bill extending oil controls for six months, would the President still be willing to compromise? Would you favor a compromise even after his veto had been sustained? In other words, are you for gradual decontrol or total decontrol?

SECRETARY SIMON: From the beginning the President has expressed his willingness and his desire to compromise. Remember, in January he presented total decontrol. He then provided 25 months, then 30 months, now 39 months, with no action. Yes, the President would still consider a compromise based on his last proposal of a phased decontrol of 39 months.

MR. COHN: Interest rates usually rise in a recovery, and most of the experts expect them to rise this time. How much will that retard the recovery in your view?

SECRETARY SIMON: I think that interest rates depend obviously on the demand that you describe. It also depends on the actual rate of inflation and the inflationary expectations that have been so deeply ingrained in our economy, and if we continue to make headway in our battle against inflation, then we can look for a moderation in interest rates.

MR. ELLIS: What in your view would be an acceptable inflation rate in the years ahead and an acceptable rise in personal income?

SECRETARY SIMON: As far as the inflation rate is concerned, I think anyone would say zero, but let's be practical. I think we have to get it back down between the two and the three percent level, which is going to take several years at least to accomplish.

MR. SPIVAK: You said at one time it is not a matter of whether prices of oil will come down, it is a matter of when they will come down. How soon do you expect them to come down and why?

SECRETARY SIMON: I would expect if we take the necessary actions, which we certainly have not, in the United States and all the other countries in the world, in conserving oil and get about the job of bringing on the alternate supplies of oil, certainly by the end of this decade we can see a lower price of oil.

MR. SPIVAK: I am sorry, but we must interrupt. Our time is up. Thank you, Secretary Simon, for being with us today on MEET THE PRESS.

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UNITED STATES DEPARTMENT OF TREASURY

Washington, D.C.

PRESS CONFERENCE

Held by:

EDWIN H. YEO

Under-Secretary
for
Monetary Affairs

4:00 p.m.
Wednesday, September 10, 1975

Treasury Building
Room 4121
15th & Pennsylvania Avenue, N.W.
Washington, D.C.

The above-entitled press conference was convened, pursuant to notice, at 4:00 p.m.

UNDER-SECRETARY YEO: Good afternoon.

I have a series of points that we would like to try and lay out. The first is that we expect borrowing from the public during the July-December half year to be in the range of $44 to $47 billion. That is an increase from our estimate of $41 billion. The difference is attributable to three things.

One, outlays are running higher than had been expected on the basis of the figures provided to our own treasury staff and their derivations from those figures. Two, the suspension of oil import fees amount to $1.0 billion. And three, really in a separate area, is that we plan, as a matter of policy, to carry a higher cash balance. This gives us a better cushion against short-term receipt and outlay variations.

I think that those of you who have followed the developments of the last three to four months can appreciate this cushion, based on those experiences, that will ensure that we will not be in a situation where developments in the foreign exchange market or elsewhere effect our position in terms of our overall estimate.

The second point is that we have done $21.5 billion including the bills that will be settled on September 18. Given the borrowing from the public figure of $44 to $47 billion, this leaves a balance yet to be done of

$22.5 to $25.5 billion.

The third point is that today we are announcing $4.0 billion of our new cash borrowing on the following basis: First, a $1.0 billion addition to the 52-week bill, to be auctioned September 17, for settlement September 23. This will raise the total amount of bills being auctioned to $2.8 billion.

Next, we will add $1.0 billion to the $2.0 billion quarter-end September 30 2-year note. This means that we will be auctioning, on September 16, $3.0 billion in 2-year notes.

We will auction $2.0 billion of February 28, 1978 notes. These will be auctioned on September 24 for settlement on October 7. This 29-month note is another addition to the end-of-month notes begun earlier this year.

I'd like to talk a little bit about our plans, not in the nature of announcements, specific financing announcements, but our plans. Our present plan is to place less emphasis, to reduce the emphasis, on the bill market. Specifically, the 3 and 6-month regular weekly bill auction.

We also plan a $2.5 billion intermediate note, to be sold in the second or third week of October, and a $3.0 billion October 31, 1977, note to be sold in this same approximate time period, second or third week in October. These will not be sold together, they will be sold separately.

The effect of this program will be to finance or the higher end of the range that I gave you in terms of borrowing from the public. It will mean that in the November refunding we'll probably raise some new cash, but not a significant amount of new cash.

The only other note financing where new cash will be raised for the remainder of the year will be on the December 31 note, so that by the end of October, our use of the note market to finance this years second-half deficit will be largely finished. We'll still have some small amount relative to the numbers we have been talking about to do, but in November and December, these are not significant numbers.

I'd add that we are not planning, at this point, to offer a [illegible] cycle note at the end of November. This fits in with a general resolve in this financing of leaving the note market largely unused in November and December.

The only additional thing is that we'll continue to use what has come to be called Federal Funds Bill for cash management purposes. We have no plans to use it to, in effect, finance the deficit; it's a vehicle to get us from one place to another place bridging a situation where our cash balance is small.

That is the extent of what I have to say. Are there any questions?

QUESTION: I wonder if you would explain your reasons for planning the program this way, and why you want to drop out of the market in November and December?

UNDER-SECRETARY YEO: The timing of our needs was such that we have to be large borrowers in September and October. It seems to us that since we are going to have to use the note market extensively that we could plan our financing in such a way to give room for the November re-funding, and a period of time in which distribution of securities can proceed. This avoids a significant amount of note financing every month.

The timing of our expenditure requirements meant that the money had to be raised in this time period and the choice was to raise it in the bill market, in the relatively short note market, or in the longer note market.

I think that there are persuasive reasons for reducing our emphasis, at this time, on use of the bill market. One of the things that I am concerned about is the problem of disintermediation, which really starts in the bill market.

QUESTION: Do you have any other reasons?

UNDER-SECRETARY YEO: Yes. I think that we have asked a great deal of the bill market. We're going to be continuing to raise money there; we're talking about degrees of emphasis. I don't want to be misunderstood, we will be a continuous borrower of net cash in the bill market.

I think that a positive yield curve is desirable to get off financing needs of the size that we are looking at. I think that the cost of using the long-term or intermediate long-term note area anymore than we are planning to use it, and the ability of the market to digest large scale financing in the longer intermediate area, would be asking too much.

I should emphasize that the note to be sold in mid-October, aside from the $3.0 billion 2-year note, will be in the longer intermediate area.

QUESTION: Are you saying that you are going to be raising something like $13 to $16 billion in the bill market between now and the end of December?

UNDER-SECRETARY YEO: We would be raising something on that order, I'll get you the exact number. It's $11 to $13 billion.

QUESTION: That still leaves $3.0 billion at the top end of your cash borrowing range unaccounted for. Where does that come from?

UNDER-SECRETARY YEO: We have assumed that you are including the funds that I mentioned, $.50 to $1.0 billion, in the November refunding.

QUESTION: That would take part of it.

UNDER-SECRETARY YEO: Yes, and the possible $1.0 billion addition, the December 31 2-year note.

QUESTION: Is that $.50 to $1.0 billion November refunding a long funding possibility?

UNDER-SECRETARY YEO: That's certainly an option.

QUESTION: The $7.0 to $10.0 billion on the detail sheet, that has meant new borrowing in the 3 to 6 month bill market, is that right?

UNDER-SECRETARY YEO: Yes, and also the so-called Federal Funds bills. I'd like to emphasize that financing of this scale is a result, it's a truism but a result, of a very large deficit and I think that we can see what the Secretary and others have been alluding to in terms of the task of financing on this scale.

This is an effort to finance this on as efficient a basis as possible, and on a basis in which we can have some confidence in our estimates.

I'm not going to give you specific estimates in the future. I'm going to give you a range. I'm referring to the borrowing from the public. I think that all of us know how difficult it is to develop a precise figure, the myriad of variables, the impact, from time to time, on that figure, and we are inducing more precision into the process than really exists by giving a single figure.

QUESTION: How large a cash balance do you want to carry?

UNDER-SECRETARY YEO: This would give us, as of the end of the year, a cash balance in the $7.0 to $9.0 billion range.

QUESTION: How much of an increase is that?

UNDER-SECRETARY YEO: That $2.0 billion. We gave you a range borrowing from the public of $44 to $47 billion. You can assume that a part of that $3.0 billion difference can be an adjustment in that end-of-year cash balance figure.

QUESTION: Giving the reasons for the increase in your borrowing, you did not include encashment of specials, as you had given as a reason previously. I think the figure given was $1.5 billion. Why is that not included now?

UNDER-SECRETARY YEO: Our assumptions assume no significant change there, and that is another reason for the $3 billion spread in our market borrowing. The $1.5 billion that we mentioned was in explaining the increase in our market borrowing in August. That was something that had happened.

I'm glad you mentioned that because that's an example of one of the factors that can impact these estimates.

QUESTION: I wonder if you would discuss the impact that the increase in the cash balance will have on the money supply and whether the Fed has been apprised of your decision and whether they plan any measures to make up for any contraction in the money supplies? I'm not exactly familiar with what the cash balance is now, but it seems like it's in the $3.0 billion range, that you would be increasing the cash balance by about $6.0 billion.

UNDER-SECRETARY YEO: No. I'm saying that the estimates here, $44 to $47 billion, borrowing from the public estimate, would result at year-end, in a cash balance of between $7.0 and $9.0 billion. That is the specific increase in cash balance that I mentioned.

The second thing that I said was that we plan to run a little larger cash balance because of some of the things that Joe mentioned in terms of encashment of specials. We are not planning on any such development, but there are a variety of things that can happen between now and year-end.

I think it would be not only convenient, which is not the real point, but much more efficient in terms of distortions to markets and changes in market expectations if we had a slightly higher cash balance.

In terms of the average increase in cash balance for this period, we don't have a figure. The specific increase that I mentioned had to do with the end-of-year number that we are geared toward in putting together the remainder of the half-year program.

In planning, you have to come to a specific end-of-year figure since we are talking about the conclusion of the second half financing.

QUESTION: You mentioned concern about disinter-mediation. Do you see economic forces building toward that possibility now?

UNDER-SECRETARY YEO: I think that our concern is based on the increase in interest rates that we have experienced and in planning this program. We planned it with a consideration being to minimize the effect of this program on the disintermediation process.

I don't really think I can comment on an interest rate forecast, but I can tell you the thinking that went into putting this program together, and that was certainly a factor.

QUESTION: How are you defining intermediate note for purposes of the October finances?

UNDER-SECRETARY YEO: I think it is certainly longer than where we have been financing, where we will have financed.

QUESTION: Longer than two and one-half years?

UNDER-SECRETARY YEO: Longer than 29 months.

We have tried to do this in such a way, and announce it in such a way, that we are as clear as possible. I know it is a specific announcement; it's fairly detailed. If there is anything I can do to clarify this before the wires are excused and we have an embargo of five minutes.

QUESTION: How much higher are outlays running than you expected?

UNDER-SECRETARY YEO: Outlays are running $2.0 to $3.0 billion higher than we had anticipated. I don't want to comment on the specific areas, it's relatively wide-spread that, plus import fees, which take $1.0 billion out, are part of the basis for the estimates that resulted in the $44 to $47 billion figure.

QUESTION: How are revenue estimates holding up?

UNDER-SECRETARY YEO: Our revenue estimates are holding up, and I will forecast one item which would be a material increase in corporate tax receipts, which would have an impact on the first half of calendar 1976, the second half of this fiscal year.

Our problem, aside from the specific, is on the expenditure side.

QUESTION: Why are corporate tax receipts expected to be increasing higher than you expected?

UNDER-SECRETARY YEO: I didn't say higher than expected, but I think that the increase in economic activity, the recovery, is likely to set the stage for a recovery in corporate profits and an attendant increase, perhaps substantial, in corporate tax receipts.

(Whereupon, at [illegible]:25 o'clock p.m., the press conference was concluded.)

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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Contact: Robert E. Harper
964-5775

FOR IMMEDIATE RELEASE SEPTEMBER 8, 1975

TREASURY SECRETARY SIMON NAMES ROBERT I. SONFIELD AS U. S. SAVINGS BONDS CHAIRMAN FOR LOUISIANA

Robert I. Sonfield, President, Maison Blanche, New Orleans, is appointed Volunteer State Chairman for the Savings Bonds Program in Louisiana by Secretary of the Treasury William E. Simon, effective immediately. Mrs. Francine I. Neff, National Director, U. S. Savings Bonds Division, and Treasurer of the United States, today presented the certificate of appointment to Sonfield at a bankers breakfast held in The Presbytere.

He will head a committee of business, banking, labor, government and media leaders who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales throughout the state. He succeeds James H. Jones, former Chairman of the Board and Chief Executive Officer, First National Bank of Commerce, New Orleans, who has received the Treasury "Award of Merit".

Sonfield, born in 1928, is a New Orleans native. He was graduated from Tulane University in 1950 with a BA degree. In February 1950, he joined Maison Blanche as Assistant to the Store Manager. Later that year he entered the Navy, serving as Staff Officer, Commander-in-Chief, Allied Forces, Southern Europe, until 1952. He returned to Maison Blanche in November of that year.

In 1961, he was named Divisional Merchandise Manager, Home Furnishings; in 1967, Senior Vice President and General Merchandise Manager; in 1968, Executive Vice President and General Merchandise Manager. He assumed his present post in 1969, along with the position of Vice President and Director, City Stores Co., New York, parent firm of Maison Blanche.

He is active in numerous business, civic and professional activities, including -- Vice President, New Orleans Tourist

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and Convention Commission, 1975; Chairman, New Orleans Symphony Fund Drive, 1974-75; Board Member, Chamber of Commerce, First National Bank of Commerce, New Orleans Philharmonic Symphony, United Way, Loyola University. Sonfield was voted one of the Ten Outstanding Men in New Orleans in 1974 by the Institute for Human Understanding.

He and his wife, the former Andrea Thorne Beerman, have three sons -- Robert, Jr., Justin and John -- and a daughter, Loren.

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ederal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

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FOR IMMEDIATE RELEASE September 8, 1975

SUMMARY OF LENDING ACTIVITY

August 17 - August 31, 1975

Federal Financing Bank lending activity for the period August 17 through August 31, 1975, was announced as follows by Roland H. Cook, Secretary:

The FFB made the following loans to utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Interest Rate	Maturity
8/18	Tri-State Generation & Transmission (Colorado)	$2,778,000	8.720%	12/31/09
8/19	Cooperative Power Association (Minnesota)	1,623,000	8.730%	12/31/09
8/20	South Mississippi Electric Power Association	3,325,000	8.180%	8/22/77
8/25	Associated Electric Cooperative (Missouri)	5,000,000	8.172%	8/26/77

Interest payments are made quarterly on the above REA loans.

Amtrak, the National Railroad Passenger Corporation, made three drawings against its lines of credit with the Bank:

Date	Amount	Interest Rate	Maturity
8/18	$10,000,000	6.733%	9/30/75
8/29	15,000,000	6.671%	9/30/75
8/29	7,000,000	6.671%	12/1/75

On August 19, the US Railway Association borrowed $5 million from the Bank under USRA Note No. 3 which matured August 25, 1975. The rate of interest was 6.858%. On August 25, 1975, USRA rolled over the total $69.2 million borrowed under Note No. 3, and borrowed $477,000 at 6.755% interest. The new maturity is November 24, 1975.

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On August 25, the FFB purchased a 5-year, $500 million Certificate of Beneficial Ownership from the Farmers Home Administration. The interest rate is 8.78%, paid on an annual basis.

The Tennessee Valley Authority borrowed $120 million from the FFB on August 28, 1975. The interest rate is 6.886%. The loan matures November 26, 1975. Proceeds of the loan were used to pay off a $100 million note maturing with the Bank, and to provide $20 million new money for TVA.

On August 29, the Department of Health, Education and Welfare borrowed $4,255,000 from the Bank under the Medical Facilities Loan Program. The interest rate is 8.575% and the maturity is July 1, 1999.

The Bank signed loan agreements with the following governments:

8/28	Greece	$30,000,000
8/29	China	$40,000,000

These agreements are under the Foreign Military Sales Act and guaranteed by the Department of Defense.

Federal Financing Bank loans outstanding on August 31, 1975 total $14.6 billion.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 8, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.9 billion of 13-week Treasury bills and for $3.2 billion of 26-week Treasury bills, both series to be issued on September 11, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 11, 1975			:	26-week bills maturing March 11, 1976		
	Price	Discount Rate	Investment Rate 1/	:	Price	Discount Rate	Investment Rate 1/
High	98.393	6.357%	6.57%	:	96.526	6.872%	7.24%
Low	98.379	6.413%	6.63%	:	96.510	6.903%	7.27%
Average	98.385	6.389%	6.60%	:	96.517	6.889%	7.26%

Tenders at the low price for the 13-week bills were allotted 4%.
Tenders at the low price for the 26-week bills were allotted 98%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	:	Received	Accepted
Boston	$ 42,610,000	$ 29,410,000	:	$ 67,980,000	$ 35,980,000
New York	3,313,710,000	2,135,880,000	:	4,561,640,000	2,496,080,000
Philadelphia	41,300,000	36,050,000	:	67,565,000	12,565,000
Cleveland	102,045,000	51,345,000	:	223,175,000	82,575,000
Richmond	58,115,000	32,370,000	:	54,740,000	22,940,000
Atlanta	39,185,000	36,525,000	:	57,595,000	20,995,000
Chicago	490,810,000	131,450,000	:	492,655,000	74,055,000
St. Louis	63,325,000	37,605,000	:	43,625,000	15,625,000
Minneapolis	26,885,000	13,085,000	:	33,635,000	7,615,000
Kansas City	57,325,000	52,780,000	:	34,705,000	30,025,000
Dallas	62,470,000	32,470,000	:	29,290,000	19,290,000
San Francisco	446,835,000	311,450,000	:	577,030,000	382,930,000
TOTALS	$4,744,615,000	$2,900,420,000 a/		$6,243,635,000	$3,200,675,000 b/

a/ Includes $535,650,000 noncompetitive tenders from the public.
b/ Includes $280,375,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 9, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $ 5,600,000,000, or thereabouts, to be issued September 18, 1975, as follows:

91-day bills (to maturity date) in the amount of $2,700,000,000, or thereabouts, representing an additional amount of bills dated June 19, 1975, and to mature December 18, 1975 (CUSIP No. 912793 YC4), originally issued in the amount of $ 2,300,690,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,900,000,000, or thereabouts, to be dated September 18, 1975, and to mature March 18, 1976 (CUSIP No. 912793 YY6).

The bills will be issued for cash and in exchange for Treasury bills maturing September 18, 1975, outstanding in the amount of $5,551,430,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,704,965,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Friday, September 12, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

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securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $ 500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on September 18, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 18, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE STEPHEN S. GARDNER
DEPUTY SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON FINANCIAL INSTITUTIONS
SUPERVISION, REGULATION AND INSURANCE
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING
WEDNESDAY, SEPTEMBER 10, 1975, 10:00 A.M.

Thank you Mr. Chairman

As you know, this Administration is committed to the repeal of regulation and regulatory authority wherever such regulatory constraints are outmoded and counterproductive, and restrict the efficient utilization of our economic system. The Regulation Q and related ceilings on time and savings deposits are becoming increasingly less effective and, as a direct corollary, progressively more unfair to the consumer saver.

At the time the scope of Regulation Q was extended in 1966, Congress recognized that such action would not cure the basic imbalances in supply and demand for credit, but the Congress hoped to provide thrift institutions with a sufficient flow of funds to assure that they could carry on their lending function in the mortgage market.

In accordance with the legislative intent, the authority granted by Regulation Q has been historically implemented in two ways, each with its own specific objective. First, interest ceilings have been maintained low enough so that the institutions covered could afford to pay the stipulated maximum rate. Indeed the ceilings have helped to prevent an escalation of the excessive rate competition Congress sought to moderate in 1966, and accordingly the ceilings have protected those institutions that would have been unable to meet such competition from being forced out of the residential

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mortgage business. Second, a differential in the permissible rate of interest has been maintained to attempt to provide competitive parity between different types of financial institutions. Again, the thrust of the regulators' efforts has been to assure that the mortgage granting institutions which have limited banking powers were protected.

While we may not agree with the Congressional rationale in enacting Regulation Q, we recognize the objectives of such legislation. However, it is our belief that events of the last ten years clearly establish that Regulation Q has not met those objectives. Despite, or perhaps as a result of the existence of the ceilings, disintermediation in every high interest period since 1966 has grown progressively more disruptive; each time it has ceased only when interest rates have declined. Your doubts that "Regulation Q due to a variety of circumstances... is not as effective in achieving its primary purpose of insuring a steady flow of deposits in thrift institutions as originally contemplated when first adopted in 1966," are well founded.

In any market-oriented system, administered interest rates set artificially low will stimulate borrowers and suppliers of funds to evade such controls. Enterprise, which is part of our free enterprise system, also means that a market demand will be filled by ingenious means.

From 1962 and especially from 1966 on, time deposits experienced a remarkable growth as compared to passbook accounts. By the end of 1974 they constituted over 50 percent of the deposits of savings and loan associations and about two-thirds of the time and savings deposits of commercial banks. Since financial institutions traditionally perceived time deposits to be stable funds because of the substantial penalties for their early withdrawal, they promoted them aggressively. As a result, depositors became sensitized and sophisticated about the yields of alternative savings investments, and over time became increasingly willing to take advantage of favorable opportunities in other, less routine, but secure instruments. During the summer of 1974, a depositor could earn 5-1/4 percent in a passbook account at his savings and loan association, but if he was wealthy enough to afford the $100,000 minimum purchase requirement of a large denomination bank certificate of deposit he could earn almost 12 percent. Further, $25,000 was sufficient to earn the same rate with 90-119 day prime commercial paper.

Money market mutual fund managers developed a system for pooling the small funds of individual savers into blocs of sufficient size to take advantage of the $100,000 time deposit certificate. They offered sufficient convenience and liquidity to attract large numbers of savers unwilling to be accorded the second class treatment mandated by the deposit rate ceilings. In March of 1974, there were seven such funds in existence with combined assets of less than $250 million. One year later 33 funds accounted for almost $3.8 billion in assets. While it is more difficult to quantify, other savers entered the capital markets directly in search of safe, liquid, and high-yielding investments, such as Treasury and sponsored agency securities, and of course this resulted in severe savings outflows from thrift institutions. The protection sought to be obtained by savings institutions through application of Regulation Q was offset by savings outflows for direct investment at higher return rates elsewhere.

As mortgage-oriented institutions have found the amount of dollars available to them reduced by disintermediation, they have increased their efforts to wrest a larger share of the remaining interest rate sheltered funds, from their competitors, the commercial banks. Thrift institutions recognized that the interest rate differential, which was intended to equalize the inherent competitive advantage of full-service banking, could result in an increased market share if the services they offered could be more equal. At the same time commercial banks sought to offer more services, both to maintain or increase their competitive advantage, and to maximize the profit potential of the relatively low cost consumer deposit.

Aggressive management, state legislatures, trade associations, and even the regulatory agencies themselves have joined in this escalating battle of competitive equality. This Committee is well aware of the recent actions of the Maine and Connecticut legislatures to permit expanded powers and checking accounts to state chartered thrift institutions, and of other attempts to place those institutions on a more competitive full-service basis with banks.

The growth of competition between institutional types has largely been in the best interest of the consumer, and should be encouraged. The battle has had its unfortunate consequences, however, in that the controversy engendered by these actions, together with actual or feared changes in the differential, have obscured the real issue -- that during periods of high interest rates, all institutions are competing for an increased share of rapidly diminishing market.

Approximately two years ago, we submitted to Congress a proposal for financial reform based largely on the findings of the Hunt Commission. Although the proposal encountered strong

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opposition at first, two successive periods of high interest rates and disintermediation have provided convincing arguments for the soundness of this approach. During this period, an increasing variety of responses by regulators and others to changing market forces have brought about some piecemealing of financial reform, an approach which cannot hope to provide the balance and comprehension necessary to insure sound progress. We are delighted that this Committee, with its FINE study and these series of hearings, has served notice of its recognition of the problems which can result from inconsistent and piecemeal reform and we applaud the Committee's goal of resolving these questions in a swift and orderly fashion.

Mr. Chairman, we need a clear and precise statement of national policy on financial reform. We need a map -- a plan for the successful implementation of balanced and viable reform over the next several years. It must be comprehensive and fair, to assure the maximum opportunity for growth and success for all financial institutions in a changing society.

Despite our belief that deposit rate regualtion is not the appropriate course in the long run, we recognize that the ceilings do represent the only competitive protection for mortgage-oriented thrift institutions at the present time. It is our belief that the ceilings should be extended until next June, to enable the Congress to act on a new program of financial reform. We feel the ceilings should be retained as a part of any such reform program -- but only until they are no longer necessary, and at that time they should be eliminated.

Similarly, it is our belief that the power to impose a differential should be continued to balance the inherent competitive difference between institutions, until an acceptable degree of competitive equality is achieved through comprehensive financial reform.

In considering the differential, it must always be kept in mind that we are not dealing simply with a mathematical fraction, but rather with a complex series of ever-changing market conditions which must be recognized and monitored, analyzed and responded to accordingly. There are some instances in which a differential might not be appropriate as in the case of passbook savings accounts for towns or municipalities, or possibly for IRA or Keogh plan accounts. We believe strongly that the respective regulatory agencies are best equipped to analyze changing market conditions and to react quickly when such changes occur. As a result, the authority of such regulators to establis ceiling rates and the differential under Regulation Q should be continued.

Finally, we would like to express our opposition to the payment of interest on demand deposits. The homogenization of savings and transaction balances which would result from the payment of interest on demand deposits not only gives rise to serious questions regarding monetary policy and reserve requirements of and between banking institutions, but also raises substantial concern as to whether the payment of interest on demand deposits would not severely diminish consumer benefits resulting from the phasing out of Regulation Q. Further, economists tell us that in the period 1974 through 1985 our estimated cumulative investment needs in the U.S. will range from $4 to $4-1/2 trillion. Much of this capital must come from small pools of individual savings. We must therefore do everything possible to encourage the growth of these deposits.

While we support the kind of evolutionary change evidenced by NOW accounts and electronic funds transfer systems, we view such changes as less significant than the fundamental changes which would result from the payment of interest on demand deposits. Indeed the changes which are now taking place and which are, in some instances, tending to blur the distinction between demand and time deposits, will provide valuable insight into this complex issue. We are convinced that in this case a reasoned judgment based on sufficient information and understanding will be in the ultimate best interest of the consumer, of the financial system, and of the economy.

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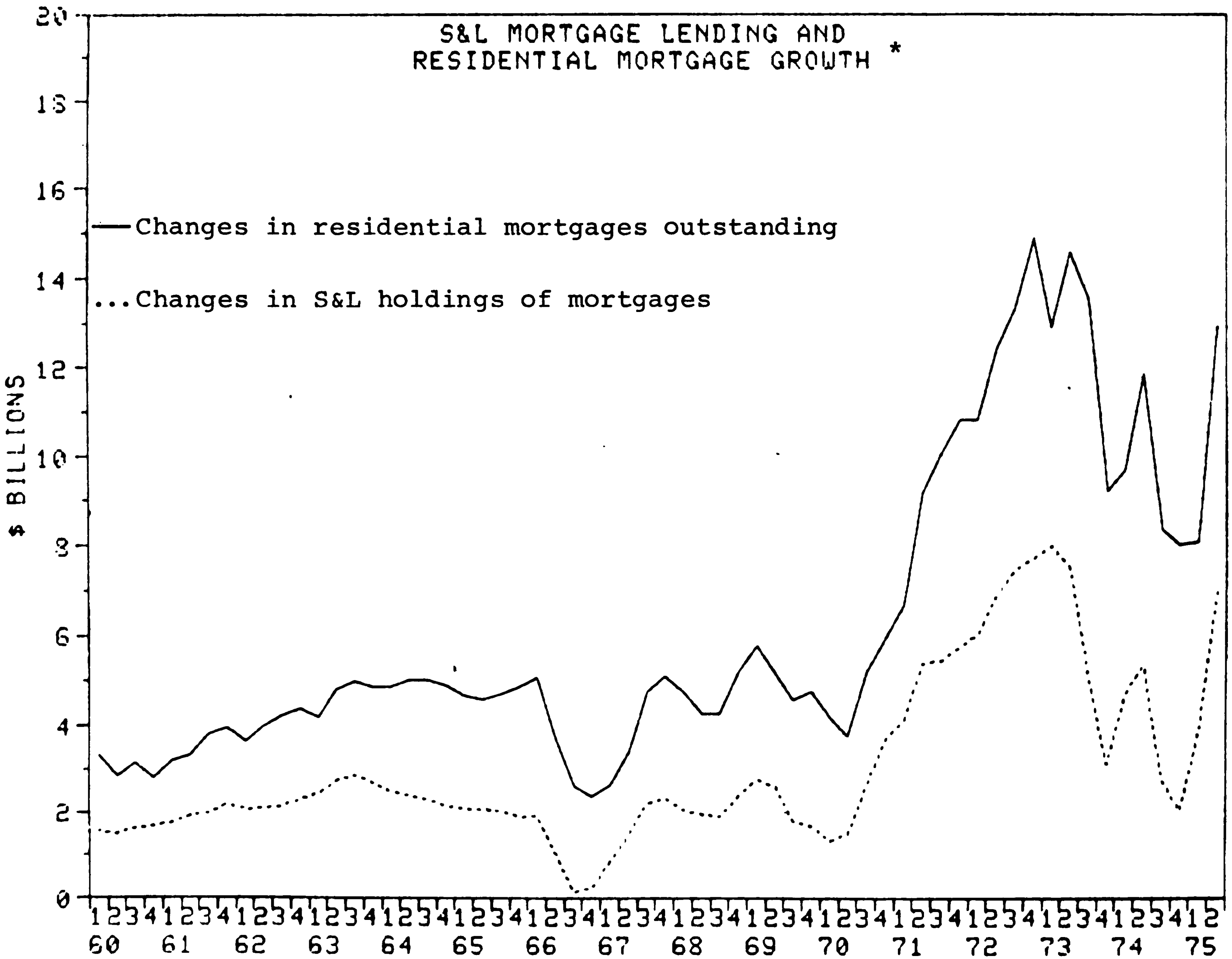
A D D E N D U M

Attached hereto are two charts which demonstrate that during the post - 1966 period the volatility of total mortgage lending, and particularly savings and loan association lending, has increased despite the imposition of Regulation Q ceilings.

In analyzing Chart 1 it should be noted that in 1969-1970 the decline in activity by savings and loan associations accounted for 63 percent of the total decline in residential mortgage lending. During the high disintermediation periods of 1973 and 1974 the industry's share of the total decline increased to 82 percent and 87 percent, respectively.

Chart 2 demonstrates that during high interest rate periods when the need for mortgage credit is greatest, savings and loan associations reduced their share of the total market. Conversely, when credit is relatively easy, the industry's share increases substantially.

CHART 1



* Seasonally adjusted quarterly flows
Source: Federal Reserve Flow of Funds

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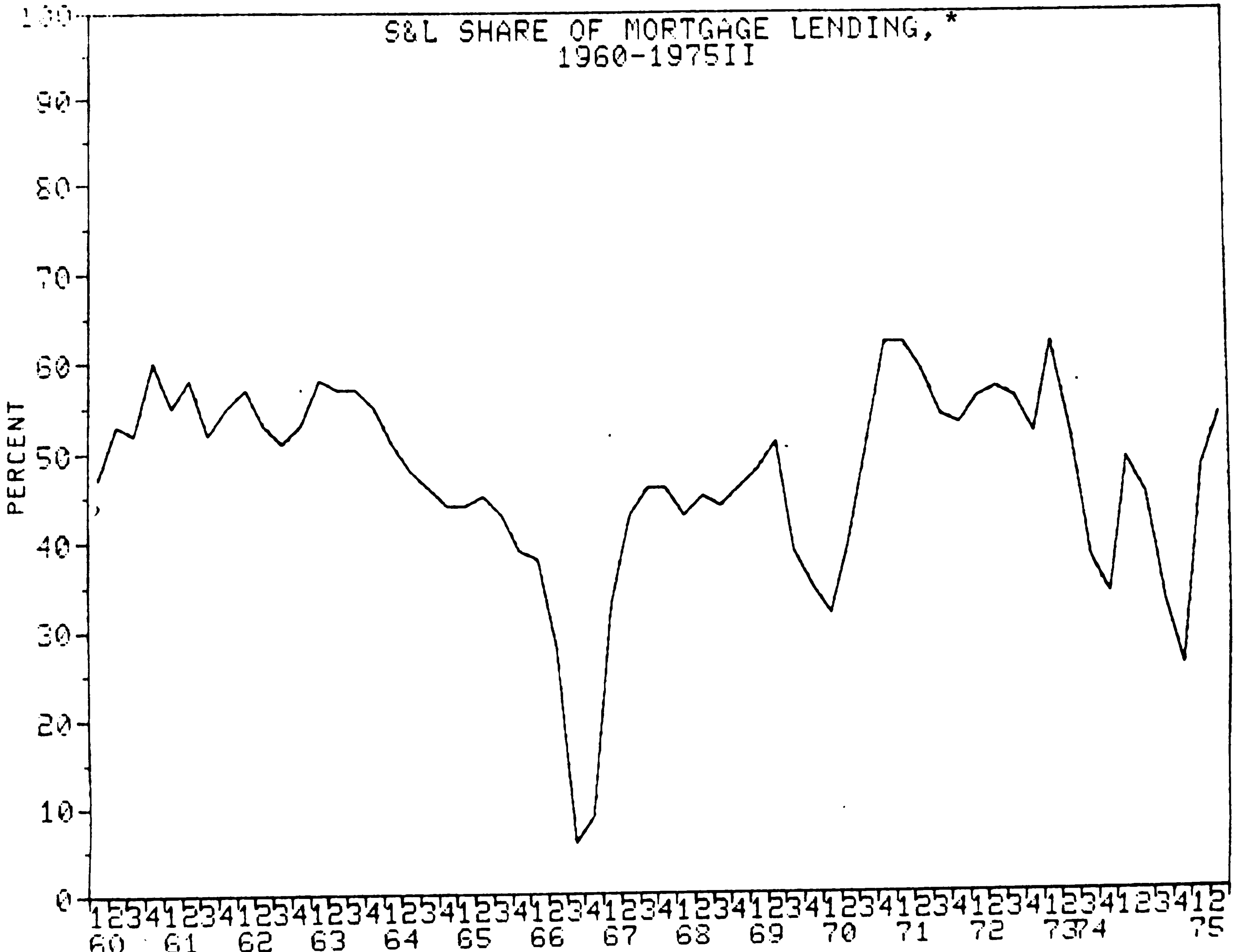
CHART 2



*Changes in mortgage holdings of S&L's as a percent of changes in residential mortgages

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

Contact: Herbert C. Shelley
X2951

FOR IMMEDIATE RELEASE September 10, 1975 333

TREASURY ANNOUNCES PRELIMINARY
COUNTERVAILING DUTY DETERMINATION

Assistant Secretary of the Treasury, David R. Macdonald, announced today a preliminary determination in the countervailing duty investigation of hydrogenated castor oil and 12 hydroxystearic acid from Brazil. Under the U.S. Countervailing Duty Law (19 U.S.C. 1303), the Secretary of the Treasury is required to issue a preliminary determination within six months after a petition is received. The petition in this case was received March 10, 1975, and a notice to that effect was published in the Federal Register of April 30, 1975. The Treasury has until March 10, 1976 in which to issue a final determination.

Treasury's preliminary affirmative determination indicates that bounties or grants are being paid or bestowed within the meaning of the statute. If a final affirmative determination is made, the Countervailing Duty Law requires the Secretary of the Treasury to assess an additional duty on merchandise benefiting from such bounties or grants.

Notice of this action will appear in the Federal Register of September 11, 1975. During calendar year 1974, imports of the two castor oil products were valued at approximately $1 million.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

For information on submitting tenders: TELEPHONE WO4-2604

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FOR RELEASE AT 4:00 P.M. September 10, 1975

TREASURY TO AUCTION $5.0 BILLION OF NOTES

The Treasury will auction to the public $3.0 billion of 2-year notes, and $2.0 billion of 29-month notes. This will refund $2.0 billion of notes held by the public maturing September 30, and will raise $3.0 billion new cash. Additional amounts of the notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities, which hold $0.1 billion of maturing notes.

The notes to be auctioned will be:

$3.0 billion of Treasury Notes of Series M-1977 dated September 30, 1975, due September 30, 1977 (CUSIP No. 912827 EX 6) with interest payable on March 31 and September 30, and

$2.0 billion of Treasury Notes of Series G-1978 dated October 7, 1975, due February 28, 1978 (CUSIP No. 912827 EY 4) with interest payable February 29 and August 31, 1976, and thereafter on February 28 and August 31.

The coupon rates will be determined after tenders are allotted.

The notes will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000, and will be available for issue in book-entry form. Payment for the notes may not be made through tax and loan accounts.

Tenders for the 2-year notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, September 16, and tenders for the 29-month notes will be received up to 1:30 p.m., Eastern Daylight Saving time, Wednesday, September 24, at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than September 15 for the 2-year notes and September 23 for the 29-month notes. Each tender must be in the amount of $5,000 or a multiple thereof, and all tenders must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (Series M-1977 or Series G-1978)" should be printed at the bottom of envelopes in which tenders are submitted.

Competitive tenders must be expressed in terms of annual yield in two decimal places, e.g., 7.11, and not in terms of a price. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the amounts offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined for each issue to the nearest 1/8 of 1 percent necessary to make the average accepted prices 100.000 or less. Those will be the rates of interest that will be paid on all of the securities of each issue. Based on such interest

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rates, the price on each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield he bid. Price calculations will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final. Tenders at a yield that will produce a price less than 99.501 will not be accepted. Noncompetitive bidders will be required to pay the average price of accepted competitive tenders; the price will be 100.000 or less.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations noncompetitive tenders for $500,000 or less for each issue of notes will be accepted in full at the average price of accepted competitive tenders.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, may submit tenders for the account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of notes applied for. However, bidders who submit checks in payment on tenders submitted directly to a Federal Reserve Bank or the Treasury may find it necessary to submit full payment for the notes with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders for the 2-year notes must be completed on or before Tuesday, September 30, 1975. Payment for accepted tenders for the 29-month notes must be completed on or before Tuesday, October 7, 1975. Payment must be in cash, 8-3/8% Treasury Notes of Series G-1975, which will be accepted at par, in other funds immediately available to the Treasury by the payment date or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such Bank or at the Treasury no later than: (1) Thursday, September 25, 1975, for the 2-year notes and Thursday, October 2, 1975, for the 29-month notes if the check is drawn on a bank in the Federal Reserve District of the Bank to which the check is submitted, or the Fifth Federal Reserve District in case of the Treasury, or (2) Tuesday, September 23, 1975, for the 2-year notes and Tuesday, September 30, 1975, for the 29-month notes if the check is drawn on a bank in another district. Checks received after the dates set forth in the preceding sentence will not be accepted unless they are payable at a Federal Reserve Bank. Where full payment is not completed on time, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States.

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Prospective Treasury Net Borrowing From The Public

July - December 1975

($ Billions)

	Bills	Coupons	Total
Done to Date	13	8 1/2	21 1/2
Announced today:			
Additional September 23 bills	1		
Additional September 30, 1977, 2-year cycle notes		1	
February 28, 1978 notes		2	
Total Announced	1	3	4
Planned (Specifics to be announced)			
Increase in October, November, December 52-week bills ($1 billion each)	3		
Intermediate term note		2 1/2	
October 31, 1977 note		3	
Total planned	3	5 1/2	8 1/2
Remainder	7-10*	1 1/2-4	9 1/2-12 1/
Total Net Market Borrowing	24-27	18 1/2-21	43 1/2-46 1/
Plus: Other (savings bonds, foreign nonmarketables, etc.)			1/2
Equals: Net Borrowing From the Public			44-47

*Regular and Cash Management Bills to be issued in October, November and December

Department of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 4:00 P.M. September 10, 1975

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for 364-day Treasury bills to be dated September 23, 1975, and to mature September 21, 1976 (CUSIP No. 912793 ZS8). The bills will be issued for cash and in exchange for Treasury bills maturing September 23, 1975.

Tenders in the amount of $1,940 million, or thereabouts, will be accepted from the public, which holds $934 million of the maturing bills.

Additional amounts of the bills may be issued at the average price of accepted tenders to Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, which hold $ 869 million of the maturing bills.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Wednesday, September 17, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without

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deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on September 23, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing September 23, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 11, 1975

USA-UNITED KINGDOM DISCUSS NEW TREATY TO AVOID DOUBLE TAXATION

The Treasury Department today announced that discussions were held in London from September 3 through 9, 1975, between representatives of the United States of America and the United Kingdom, about the conclusion of a new treaty for the avoidance of double taxation between the two countries.

A wide measure of agreement was reached and it is anticipated that further talks will be held later this year in Washington, D.C., with the object of completing a treaty this year.

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ie Department of the TREASURY NEWS
SHINGTON, D.C. 20220 TELEPHONE 964-2041

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Contact: L. F. Potts
X8256

FOR IMMEDIATE RELEASE September 11, 1975

TREASURY ANNOUNCES TENTATIVE
REVOCATION OF DUMPING FINDING
ON TEMPERED SHEET GLASS FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today a tentative determination to revoke a finding of dumping in the case of tempered sheet glass from Japan under the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of September 12, 1975. A finding of dumping with respect to tempered sheet glass from Japan was published in the Federal Register of September 25, 1971.

The Federal Register notice of September 12, 1975, will state in part the finding that the sole exporter, Asahi Glass Company, Ltd., is no longer selling, or likely to sell, tempered sheet glass to the United States at less than fair value within the meaning of the Antidumping Act and that written assurances have been received that future sales of tempered sheet glass to the United States will not be made at less than fair value.

Imports of tempered sheet glass during 1974 were valued at approximately $1.3 million.

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REMARKS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
DEDICATION OF THE CONSOLIDATED FEDERAL LAW ENFORCEMENT TRAINING CENTER
GLYNCO, GEORGIA, SEPTEMBER 12, 1975

GOVERNOR BUSBEE, SENATOR TALMADGE, SENATOR NUNN, CONGRESSMAN GINN, DISTINGUISHED MEMBERS OF THE VISITING CONGRESSIONAL DELEGATION, AND LADIES AND GENTLEMEN:

IT IS A GREAT PERSONAL PLEASURE TO JOIN YOU HERE TODAY FOR THIS DEDICATION AND TO BE RECEIVED SO WARMLY. THE FRIENDLINESS AND HOSPITALITY OF THE PEOPLE OF GLYNN COUNTY, THE CITY OF BRUNSWICK AND THE GOLDEN ISLE COME AS NO SURPRISE TO ME OR TO MY WIFE, CAROL. WE SPENT OUR HONEYMOON HERE ON SEA ISLAND TWENTY FIVE YEARS AGO, AND IT HAS REMAINED ONE OF OUR FAVORITE SPOTS EVER SINCE.

TODAY WE ARE GATHERED TO MARK THE OPENING OF THE NEW FEDERAL LAW ENFORCEMENT TRAINING CENTER. SOME 3,000 STUDENTS WILL BE TRAINED HERE THIS YEAR IN THE BASIC TECHNIQUES OF LAW ENFORCEMENT, AND BY 1977, THE CENTER IS EXPECTED TO

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TRAIN SOME 9,000 MEN AND WOMEN EVERY YEAR. THOSE GRADUATES WILL THEN BECOME THE FRONT-LINE OFFICERS FOR THE U.S. SECRET SERVICE, THE U.S. MARSHALS, THE CAPITOL POLICE, THE PARK POLICE, AND THE MANY OTHER BRANCHES OF FEDERAL LAW ENFORCEMENT OTHER THAN THE FBI.

SOME OBSERVERS HAVE ALREADY BEGUN CALLING THIS CENTER THE "WEST POINT OF LAW ENFORCEMENT" OR AS I THINK IT MIGHT BE MORE APPROPRIATELY CALLED, THE "CITADEL OF LAW ENFORCEMENT." AND ALL OF US MUST SHARE THE HOPE THAT IT WILL LIVE UP TO THOSE EXPECTATIONS. CERTAINLY, THERE HAS RARELY BEEN A TIME WHEN OUR COUNTRY NEEDED MORE HIGHLY TRAINED AND QUALIFIED LAW ENFORCEMENT OFFICERS THAN WE DO TODAY. AS CITIZENS WHO WANT TO PROTECT OURSELVES AND OUR FAMILIES, NONE OF US CAN TOLERATE THE RISING TIDE OF CRIME THAT IS ONCE AGAIN SWEEPING ACROSS OUR LAND. AS AMERICANS WHO BELIEVE IN FREEDOM, EACH OF US IS ALSO COMMITTED TO SAFEGUARDING THE CONSTITUTIONAL

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GUARANTEES OF THE ACCUSED. THESE ARE HIGH ASPIRATIONS -- TO PROTECT THE FREEDOMS OF LAW-ABIDING CITIZENS WHILE ALSO PROTECTING THE RIGHTS OF THOSE WHO MAY VIOLATE THE LAW -- AND IN THE VOLATILE, COMPLEX SOCIETY IN WHICH WE LIVE, THOSE ASPIRATIONS CAN ONLY BE REALIZED THROUGH THE MAINTAINANCE OF A SUPERB TEAM OF LAW ENFORCEMENT OFFICERS. THAT IS THE GOAL WE SEEK HERE.

IF THERE CAN BE ANY DOUBT OF THE HEAVY RESPONSIBILITIES THAT WILL BE THRUST UPON THE GRADUATES OF THIS CENTER, YOU NEED ONLY REMEMBER THE INCIDENT THAT OCCURRED LAST WEEK IN SACRAMENTO, CALIFORNIA. THE U.S. SECRET SERVICE ACTED SWIFTLY AND EFFECTIVELY DURING THOSE FEW TENSE SECONDS, AND WE MUST ENSURE THAT THOSE STANDARDS OF EXCELLENCE ARE CONTINUED INTO THE FUTURE.

THE INSPIRATION AND MUCH OF THE CREDIT FOR THE CONSTRUCTION OF THIS INSTITUTION IS OWED TO A VERY FINE CONGRESSMAN FROM

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OKLAHOMA, THE HONORABLE TOM STEED. TOM FORESAW MANY YEARS AGO THAT GREATER PROFESSIONALISM WOULD BE NEEDED IN THE NATION'S LAW ENFORCEMENT RANKS IN ORDER TO DEAL WITH MUSHROOMING CRIME RATES. HE ALSO RECOGNIZED THAT IF THE FRAGMENTARY TRAINING CENTERS WHICH THEN EXISTED COULD BE COMBINED INTO ONE FACILITY, WE WOULD PROVIDE FAR BETTER TRAINING FOR EACH OF OUR OFFICERS. THE WHOLE, AS HE SAW IT, WOULD BE GREATER THAN THE SUM OF ITS PARTS. FROM THIS VISION CAME THE CONCEPT OF THIS CENTER WITH THE GOAL THAT IT BECOME A FIRST-CLASS FACILITY WITH THE FINEST STAFF MEMBERS THAT EACH AGENCY COULD CONTRIBUTE. TOM PURSUED THAT GOAL FOR OVER A DECADE, AND NOW IT HAS COME TO FRUITION.

TOM WOULD BE THE FIRST TO TELL YOU THAT THE PUBLIC WORKS COMMITTEES OF BOTH THE SENATE AND THE HOUSE ALSO DESERVE OUR HEARTFELT APPRECIATION FOR HELPING TO FINANCE THIS CENTER. AS SENATOR NUNN HAS MENTIONED, WE LITERALLY WOULD NOT BE HERE TODAY BUT FOR THE INGENUITY OF THE PUBLIC

WORKS COMMITTEES. INDEED, THE CREATION OF THIS NEW FACILITY IS ONE OF THE FINEST EXAMPLES I KNOW OF HOW MUCH CAN BE ACHIEVED WHEN THE CONGRESSIONAL AND EXECUTIVE BRANCHES WORK CLOSELY TOGETHER.

THE WISDOM SHOWN IN CONVERTING AN EXISTING PUBLIC FACILITY INTO A NEW TRAINING CENTER HAS MEANT THAT THE LAW ENFORCEMENT TRAINING CENTER COULD OPEN LONG BEFORE ANY OF US EXPECTED. IT HAS ALSO MEANT A CONSIDERABLE SAVINGS TO THE TAXPAYER, SOMETHING WHICH ALL OF US CAN APPRECIATE TODAY.

TODAY'S OPENING, OF COURSE, IS ONLY THE BEGINNING. DURING THE NEXT TWO YEARS, THERE WILL BE FURTHER CONSTRUCTION, AS A BUILDING CONTAINING A FIREARMS RANGE IS COMPLETED AND ADDITIONAL REMODELING AND FINISHING OCCURS IN SEVERAL OF THE EXISTING STRUCTURES. IT PROMISES TO BE ONE OF THE MOST COMPREHENSIVE TRAINING CENTERS IN LAW ENFORCEMENT HISTORY.

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For those of us in the Treasury Department who have long looked forward to this moment, I want to say here today that we are extremely grateful to the many fine people who have nursed and guided this project to such a successful opening -- to the Members of Congress I have already mentioned, to other Members of Congress who are with us on this platform and have worked hard on this project, and to the many fine residents of this area who will become our new neighbors. We are delighted to make Georgia our new home.

One of Georgia's finest contributions to the United States and one of my most distinguished friends, the Honorable Herman Talmadge, has given a special gift to the Center: a U.S. flag that has flown over our National Capitol in Washington. On behalf of Senator Talmadge, I now present that flag to the acting director of the Center, Bob Efteland.

Mr. Efteland, I now declare that this Consolidated Law Enforcement Training Center is in commission as an agency of the United States Treasury Department, dedicated to the protection of freedom and the pursuit of justice.

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
NEWS
TELEPHONE 634-5248

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FOR IMMEDIATE RELEASE
FRIDAY, SEPTEMBER 12, 1975
FOR INFORMATION CALL: PRISCILLA R. CRANE (202) 634-5248

Over 5,000 governments in the United States have been notified by the U. S. Treasury Department's Office of Revenue Sharing that their October revenue sharing checks cannot be mailed unless two required report forms are returned to the revenue sharing office by September 19th.

The 5,673 places to which reminders have been sent range in size from San Bernardino County, California (which should receive $11,779,378) to the town of Silver Street, South Carolina ($260). A total of $251,890,952 could be delayed.

Revenue sharing law requires that two one-page forms be published locally and filed with the Office of Revenue Sharing for each period of time in which funds are distributed. One of these is a Planned Use Report on which each recipient unit of government indicates its plans for use of funds it expects to receive for the coming period. The other is an Actual Use Report, due after June 30 of each year, on which each government reports its expenditures and other obligations of funds during the fiscal year just ended.

"Some governments to which we have sent notices have returned one report and not the other. Both reports are required before the money can be released," John K. Parker, Acting Director

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of the Office of Revenue Sharing stated today. "Fortunately, fewer places are delinquent in returning the forms this year than was the case last year. We hope that most of the late filers' reports will be received in time for them to receive their October checks on schedule," he added.

The Planned Use Report which is required to be filed before the October 1975 checks can be mailed was sent to all of the nearly 39,000 revenue sharing recipients in April of this year. It was due to be returned in June. The latest Actual Use Report was mailed to all eligible governments in June and was due in the Office of Revenue Sharing by September 1, 1975.

The October checks represent the first quarterly payment of Entitlement Period Six (July 1, 1975 to June 30, 1976) revenue sharing funds. Shared revenues are distributed in periods specified by law. The money for each period is paid on a quarterly basis: in October, January, April and July.

Funds may not be released to any government that has not filed properly-completed reports. The money is released with the next regularly-scheduled payment after the reports are received.

The State and Local Fiscal Assistance Act of 1972 which established the general revenue sharing program, authorizes the distribution of $30.2 billion in five years, from 1972 through December 1976. All units of general-purpose government in the United States are eligible to receive the funds.

e Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 12, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $2.7 billion of 13-week Treasury bills and for $2.9 billion of 26-week Treasury bills, both series to be issued on September 18, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 18, 1975			26-week bills maturing March 18, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.387 a/	6.381%	6.59%	96.552	6.820%	7.18%
Low	98.367	6.460%	6.68%	96.498	6.927%	7.30%
Average	98.371	6.444%	6.66%	96.511	6.901%	7.27%

a/ Excepting 1 tender of $4,155,000

Tenders at the low price for the 13-week bills were allotted 57%.
Tenders at the low price for the 26-week bills were allotted 73%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 43,455,000	$ 29,910,000	$ 25,255,000	$ 15,255,000
New York	3,894,185,000	2,113,475,000	3,561,085,000	2,364,765,000
Philadelphia	56,570,000	28,140,000	9,070,000	9,070,000
Cleveland	161,365,000	36,365,000	135,030,000	34,330,000
Richmond	70,585,000	63,155,000	39,215,000	39,215,000
Atlanta	60,755,000	56,755,000	43,750,000	40,750,000
Chicago	284,170,000	113,025,000	283,940,000	127,940,000
St. Louis	49,550,000	31,850,000	33,780,000	26,510,000
Minneapolis	16,715,000	11,855,000	12,840,000	12,840,000
Kansas City	63,865,000	61,535,000	30,655,000	26,155,000
Dallas	87,610,000	26,030,000	27,070,000	24,800,000
San Francisco	244,345,000	129,145,000	247,345,000	178,805,000
TOTAL	$5,033,170,000	$2,701,240,000 b/	$4,449,035,000	$2,900,435,000 c/

b/ Includes $405,905,000 noncompetitive tenders from the public.
c/ Includes $ 197,115,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

Department of the TREASURY NEWS
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Contact: Richard Self
x8256

FOR IMMEDIATE RELEASE September 15, 1975

TREASURY DEPARTMENT ANNOUNCES COUNTERVAILING DUTY INVESTIGATION ON IMPORTED SCREWS FROM ITALY

Assistant Secretary of the Treasury David R. Macdonald announced today the initiation of a countervailing duty investigation against imported screws from Italy. A "Notice of Receipt of Countervailing Duty Petition and Initiation of Investigation" will be published in the Federal Register of September 16, 1975.

Under the U.S. Countervailing Duty Law (19 U.S.C. 1303) the Secretary of the Treasury is required to assess an additional customs' duty which is equal to the amount of the "bounty or grant" that has been found to be paid or bestowed on imported merchandise. The Law requires that a final decision as to the existence or nonexistence of a bounty or grant be issued by no later than 12 months upon the date of receipt of the countervailing duty petition. A preliminary determination to this effect is required under the Law by no later than 6 months after the date of the receipt of the petition.

The investigation of imports of screws from Italy stems from a petition received on behalf of domestic industry that this merchandise receives "bounties or grants" in the form of rebates under Italian Law 639. The Treasury has until February 11, 1976 to issue a preliminary determination as to whether a bounty or grant exists. A final determination must be rendered by no later than August 11, 1976.

During calendar year 1974 imports of screws from Italy totaled approximately $1.9 million.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE UPON DELIVERY

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE 1975 SOUTHERN GOVERNORS CONFERENCE
WALT DISNEY WORLD, FLORIDA, SEPTEMBER 15, 1975
11:00 A.M. EDT

It's certainly good to be here today among so many old friends. One of the greatest pleasures I have had in public life is to come to know and work with the governors in this assembly, and I can tell you there is no single group of gentlemen in this country whose company I more greatly enjoy or respect. Some of the old hands in Washington are beginning to tell me that the combination of Southern Governors and Bill Simon goes together almost as well as bourbon and branch water.

Your very fine host, Governor Askew, suggested that I might talk with you today about the nation's economic prospects -- present and future. I know that Senator Mansfield has already covered some of this ground, but it may be helpful to see it again from a somewhat different perspective.

In my view, we have now reached one of the most delicate periods in the process of recovery. As the economy begins its upward climb, it is bound to produce a mixture of good and bad news. Most of the statistics on economic growth will point upwards, but a few will continue to cause doubts. As reflected by the stock market and recent consumer surveys, some observers are already jittery, worrying that the recovery will never get off the ground or that we may crash in the jagged peaks of inflation. Inevitably, there will be growing political pressures -- especially as Washington is seized with election fever -- to adopt much more expansionary policies.

Washington is not ideally equipped to deal with these pressures. Time and again in the past, when the choice had to be made between sound economic policies and popular political ones, we have succumbed to the wrong instincts. Both Democrats and Republicans have made the same mistakes. And the result has been a sad record of stop-and-go policies that have only accentuated the forces of expansion and contraction and, in fact, must be held accountable for a significant amount of our current economic troubles.

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In view of that record and considering the vigor of the recovery that is now underway, I would suggest that this is not a time for "politics as usual" -- not for fancy, headline-catching action in Washington -- but for a calm, steady hand on the tiller. We must not be rigid in our approach. In coming weeks, for instance, we must decide whether to extend the recent tax cut and it is important that we maintain an open mind on that issue. But contrary to past practice, I would hope that our answer would be dictated more by economic than by political considerations.

Earlier this week I asked one of the top economists in the government about his views on the tax question, and he said, "I've been in the government so long that I'm not sure whether my opinions are based on economics or politics." While that surely happens to the best, it is a tendency we must learn to resist.

The recovery that we've experienced in the last several months does, I believe, provide solid grounds for encouragement. It came earlier and it has been stronger than most forecasters predicted, and I think that it will continue to be stronger and that the unemployment rate will come down more rapidly than many now think. Let's look for a moment at the dimensions of the recovery:

-- 1.5 million jobs have been added to the work force since March.

-- The unemployment rate has held steady at 8.4% for two months in a row, significantly below the 9.2% peak reached in May.

-- After sliding downwards for five consecutive quarters, including a decline of 11.4% on an annualized basis during the first quarter of this year, the Gross National Product has reversed course, rising at a 1.6% annual rate in the second quarter.

-- The composite of 12 leading economic indicators has now moved up strongly for five months in a row.

-- Inventories have been sharply reduced, opening the way to rising production levels.

-- And exports are up considerably.

Moreover, the Government is supplying a great deal more stimulus to the economy than most people realize. You will often read that the $44 billion deficit incurred by the Federal Government in fiscal year]975 resulted from a loss of revenue caused by the recession. That is partially true. But it is also true that Federal outlays during that year were $56 billion higher than the year before -- a 2] percent increase and the biggest single percentage increase in more than two decades. Monetary policy has also been stimulative as the total of currency and bank demand deposits -- the M_1 money supply, as it is called by economists -- has increased at an annualized rate of over 8-1/2% the first half of this year.

A compilation of 21 well-known, private economic models show that 10 of them now predict that real growth in the third quarter will be over 5 percent, and 10 of them show it will be in excess of 6 percent. Similar growth patterns are foreseen for the fourth quarter and into 1976. Within the government itself, we now anticipate a moderate to strong expansion of real output extending through the second half of the year into 1976. And if we act prudently, we believe that the recovery will be both sustained and vigorous beyond that time.

I hasten to re-emphasize the need for prudence, because there are certainly a number of shoals ahead and we must be careful to avoid them.

The most obvious is the renewed threat of inflation. The inflationary surge that we've experienced in the last few weeks is directly related to increases in energy and ood costs and we are hopeful that it will be only a bubble, quickly passing out of the system. But it is also a grim reminder that even the most severe recession in more than a generation has not fully defeated the forces of inflation. Indeed, the rate of increase in the Consumer Price Index so far this year has averaged more than 6-7%, more than triple the rate that I would consider acceptable over the long-run. And the last WPI figures also brought the first significant increase in industrial prices.

A prolonged seige of new, double-digit inflation would almost certainly wreck our hopes for a durable economic recovery. We must never forget that excessive inflation was the basic cause of the recession and that it remains our most fundamental economic problem. Administration critics argue that our concern with inflation reflects an insensitivity toward jobs and the poor: to the contrary, it is only by

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conquering inflation that we are going to achieve the long-range growth that is essential for the creation of new jobs. We do not have the luxury of choosing between jobs and inflation: experience teaches us that we must pursue both of these goals simultaneously. As we continue to stimulate the economy, then, it is essential that we also take extreme care in avoiding policy excesses which would whip up the inflationary forces that still plague our economy. For policy purposes, this means three things:

(1) We must maintain a stout defense against continuing efforts to bust the Federal budget. Earlier this year the country applauded as the President succeeded in vetoing several bills that would have cost the taxpayers an additional $6 billion before 1977. It has not been widely noticed, however, that since that time the Congress has begun to make serious inroads on the President's deficit ceiling of $60 billion. In fact, there is now a considerable question of whether the Congress can contain itself within its own target of a $68.8 billion deficit. The senate keeps a scorecard on Congressional budget activities of the Congress, and in their most recent report they conceded that the Congress could overshoot its own target by almost $5 billion. If the Congress can do no better job in disciplining itself under the new budgetary process, then all of us are going to have to start looking for some better solutions.

(2) We must press forward in the effort to adopt a comprehensive national energy policy -- a policy that will generate more energy supplies without generating significantly higher degrees of inflation. This Administration has had such a policy before the Congress for nearly nine months now. We have offered more compromises to the Congress than I care to remember, and we stand ready to compromise now. But at some point the Congress must pull itself together and join us in this effort, or like Samson, we're going to give it all away to those Delilahs of the Middle East.

The President has indicated his willingness to work with the Congress to enact a decontrol plan for domestic oil, but we are fully prepared to go forward without controls if

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no Congressional action is soon forthcoming. At the same time, we want to work with the Congress, with the Governors, and with the private sector in arriving at better answers to our natural gas problem. And let me add that one of the best forums in the country for finding solutions to the natural gas problem is right here: several of you represent states that could be the hardest hit by natural gas shortages this winter while others of you represent the nation's leading producers.

We ask you to join with us in proceeding down two different legislative tracks regarding natural gas. First, we must seek legislation that would help to ease the immediate shortages . As you know, this country has allowed the natural gas issue to drift so long that it will not be possible to end all shortages this winter, but we must do what we can to alleviate them. Toward that end, the President sent a four-part bill to the Congress last week, and I commend it to your attention. The second track -- and one that must not be lost in the debates over a short-term answer -- is to achieve the long-term goal of total deregulation. We are firmly for deregulation; many of you support deregulation; now we must persuade the country and the Congress that it is an idea whose time has come.

(3) We must draw a hard line against price increases by the OPEC bloc. The prices they are charging now cannot be justified on either economic or financial grounds; they are politically determined and, truth to tell, they amount to political blackmail. As I have stressed on other occasions, I believe that another major increase in their prices this fall would seriously jeopardize the balance upon which worldwide recovery now depends. Two weeks ago, I had a chance to talk with the OPEC finance ministers, and I was encouraged by a sense of moderation and realism that most of them displayed. But the question of another increase is not yet resolved; until it is, the United States must leave no doubt about its views.

The problems of inflation, then, arise in many different ways -- in government spending practices, in questions of domestic energy policy, and in international oil prices -- and we must work on all of these fronts at the same time.

Still another immediate concern with regard to the recovery, and one that is related to inflation, has been the pattern of rising interest rates. More than six months ago, when we began warning that private borrowers might be

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crowded out of the market by the government, we were hotly roasted by many of the apologists for big government spending. Their models, they said, showed that interest rates would decline and private borrowers would be able to obtain ample funds. But the fact is that the "crowding out" that concerned us has already started. Furthermore, there has been an accentuation of the "flight to quality" that we have seen in the financial markets in the recent past. Funds are still available to high quality borrowers, but many lower quality borrowers are finding that they no longer have access to the market at prices they can afford. Looking down the road, a continuation of this trend would spell very serious trouble, for the future growth of the economy. For now, it is imperative that the Federal Government not act to increase inflationary expectations and thus drive interest rates higher than they are already.

A third area of immediate concern for all of us must be consumer confidence. While I do not place full faith and credit in the results of public polls, they do bear watching and recently they have shown a sag in public expectations. One polling official visited some officials in the Treasury Department last week and said that most of the current concern has been fanned by the reappearance of inflation. I need not remind you that a precipitous drop in consumer sentiments, touched off by the wave of double-digit inflation, was a major element in bringing the last recession. It would be tragic to let that happen again. Instead, it is clear to me that we must follow the same policy prescriptions that I have suggested earlier: strong, steady policies that support the forces of recovery but carefully avoid the excesses that would rekindle inflation.

I could continue at some length on current problems and prospects, but let me turn for a moment to longer-range and even more fundamental concerns. I have, as you can see, a high degree of confidence in the immediate future. I am, however, increasingly troubled by what may lie a few years beyond the horizon. I do not believe that our economic nor our financial mechanisms can withstand a continual battering for the next five or ten years without suffering rather severe consequences; and let there be no doubt: serious damage to our economic system would most assuredly be a body blow to our political system as well. I spoke with you about my concerns at the National Governors Conference earlier this year, but let me re-emphasize a few of them.

-- Our economic and financial institutions, I believe, cannot tolerate a prolonged period of inflation in the double-digit or high single-digit range:

-- They cannot create the 11 million new jobs we need before 1980 unless far more of our resources are pumped into new capital investments.

-- They cannot survive higher and higher degrees of illiquidity.

-- They cannot grow and prosper if there is a continual depression in profits.

-- They cannot operate efficiently and imaginatively if they are strangled in a growing web of government regulations.

-- And they cannot survive the political pressures of a restive society unless they regain public esteem and attract many of the brightest and most able of our young people.

None of these trends will be easy to reverse. Their causes are deep-seated and have built up over a long period. The habit of excessive governmental spending, which lies at the root of so many of our difficulties, extends back for years: we have had 14 Federal deficits in the last 15 years, and 40 in the last 48 years. The sins of a decade or more will not be forgiven by a single day or even by a single year of penance.

The critical point is that we get started -- that we begin working to slow and then reverse the patterns. And we should be acting now, not two or three years hence when the problems could be significantly bigger and more difficult to master. If we wait too long, the solutions that will be forced upon us will make a mockery of the traditions that we hold dear in this country. The first rumblings for new wage and price controls can already be heard in Washington. Indeed, the wolf of Big Government is nearing our door, and it will not be driven off unless we act soon.

Late in July, I went before the House Ways and Means Committee to propose some rather fundamental changes in our tax code that would encourage a higher rate of capital formation -- or as the President aptly calls it, a new program of job formation. It was obvious that we would meet with stiff opposition both in the Congress and in the press, and we knew the chances were slim that Chairman Ullman and his committee would act on our proposal before the end of the year. But it was important, we thought, to generate a more serious public debate about capital formation and to begin laying the groundwork for the changes that are so clearly needed in the future.

This is the posture that I believe must be taken by all of us here: to be forthright about the crucial choices that our nation must make and to be aggressive in pursuing our desired ends. There can be no question about how far this country has wandered from its moorings. Economic freedom is now on the line; political freedom is on the line; and personal freedom is on the line. And if people who believe in those freedoms aren't willing to stand up and fight for them, who will?

As national leaders, as great patriots, and as the chief executives of a region that has overcome some of the most troublesome problems in our country's history, you represent one of the best hopes of America. I deeply believe in you and in the contribution that you can make. Through our personal contacts and through the office that we have set up in the Treasury to maintain a liaison with you -- an office that I am happy to see many of you using -- I am committed to working closely with each of you. Great decisions lie before this nation -- decisions that could shape the lives of our children and our children's children. Let each of us act as a trustee of their future.

Thank you.

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e Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 964-2041

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CONTACT: GEORGE G. ROSS
202-964-5985
Sept. 16, 1975

FOR IMMEDIATE RELEASE

THE UNITED STATES AND THE REPUBLIC OF TUNISIA HOLD DISCUSSIONS ON AN INCOME TAX TREATY

The Treasury Department today announced that representatives of the United States and the Republic of Tunisia held preliminary discussions in Washington September 2 through September 4 to consider entering into an income tax treaty. Representatives of the two countries plan to meet in Tunis in the Spring of 1976 to begin formal discussions of a proposed bilateral income tax treaty.

At present there is no income tax convention between the two countries.

The proposed treaty is intended to prevent double taxation and to facilitate trade and investment between the two countries. It will be concerned with the tax treatment of income of individuals and companies from business, investment, and personal services, and the procedures for administering the provisions of the treaty.

The "model" income tax treaty developed by the Organization for Economic Cooperation and Development will be taken into account along with recent U.S. treaties with other countries, such as the treaty with Norway, which entered into force in 1972 and the treaties with Trinidad and Tobago and Japan, which entered into force in 1971 and 1972, respectively.

Persons wishing to make comments and suggestions about the discussion to be held with representatives of Tunisia should submit their views in writing to Charles M. Walker, Assistant Secretary of the Treasury, U.S. Treasury Department, Washington, D.C. 20220.

This announcement appears in the Federal Register of September 16, 1975.

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Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE AT 4:00 P.M. September 16, 1975

TREASURY'S WEEKLY BILL OFFERING 361

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $5,500,000,000 , or thereabouts, to be issued September 25, 1975, as follows:

92-day bills (to maturity date) in the amount of $2,700,000,000, or thereabouts, representing an additional amount of bills dated June 26, 1975, and to mature December 26, 1975 (CUSIP No. 912793 YD2), originally issued in the amount of $ 2,301,675,000, the additional and original bills to be freely interchangeable.

182-day bills, for $2,800,000,000, or thereabouts, to be dated September 25, 1975, and to mature March 25, 1976 (CUSIP No. 912793 YZ3).

The bills will be issued for cash and in exchange for Treasury bills maturing September 25, 1975, outstanding in the amount of $ 5,502,295,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $1,818,270,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, September 22, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

(OVER)

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 17, 1975

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $1,940,000,000 of 52-week Treasury bills to be issued to the public, to be dated September 23, 1975, and to mature September 21, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting 3 tenders totaling $3,000,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	92.611	7.308%	7.87%
Low -	92.568	7.350%	7.92%
Average -	92.580	7.338%	7.90%

TOTAL TENDERS FROM THE PUBLIC RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted
Boston	$ 102,985,000	$ 50,475,000
New York	3,558,705,000	1,257,720,000
Philadelphia	34,900,000	33,900,000
Cleveland	297,030,000	137,360,000
Richmond	84,195,000	41,195,000
Atlanta	22,180,000	13,805,000
Chicago	432,820,000	134,950,000
St. Louis	45,235,000	19,235,000
Minneapolis	99,870,000	51,870,000
Kansas City	42,200,000	26,180,000
Dallas	35,985,000	8,585,000
San Francisco	459,065,000	164,895,000
TOTAL	$5,215,170,000	$1,940,170,000

The $1,940,170,000 of accepted tenders includes 33% of the amount of bills bid for at the low price and $184,420,000 of noncompetitive tenders from the public accepted at the average price.

In addition, $918,035,000 of tenders were accepted at the average price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

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FOR RELEASE UPON DELIVERY

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Statement of the Honorable William E. Simon
Secretary of the Treasury
Before the Subcommittee on International
Trade, Investment and Monetary Policy
of the Committee on Banking, Currency and Housing
House of Representatives
September 18, 1975, 10:00 A.M., 2128 RHOB

Mr. Chairman and members of the Subcommittee, I am pleased to appear on behalf of the Administration to urge that you favorably report H.R. 8175, authorizing U.S. participation in the Financial Support Fund to be established in association with the Organization for Economic Cooperation and Development.

During the past two years, the international economy has experienced a series of severe shocks arising from multi-fold oil price increases and from rampant world-wide inflation followed by a steep economic downturn. Traditionally international payments patterns have undergone the sharpest and most abrupt shifts the world has seen in the post-war period. Within months of the oil price increase, developed nations as a group, accustomed to exporting capital and transfering real resources to the developing world, were experiencing large trade and current account deficits with the resultant need for external borrowing. While the larger, stronger countries greatly improved their position in the early part of this year, the gains were temporary and, for most, deficits are again in prospect. Many non-oil exporting developing countries, already faced with heavy capital requirements and debt burdens, are seeing their development programs endangered by the need to finance higher oil import costs. The reflection of these changes is the emergence of a relatively few oil exporting countries as major international creditors and investors. Their large collective financial surplus poses potentially major financing problems in the period immediately ahead.

The Support Fund represents an urgent and necessary response to the financial and economic problems posed by massive increases in the price of oil. It will provide an essential element of financial cooperation to complement cooperation in economic and energy policy on the part of the major industrial nations. And it is adapted to the

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nature of the immediate financing problems, in that it provides contingency insurance against a threat which we hope will not materialize but which nevertheless is real and serious. The participation of the United States in the Support Fund will underline our commitment to a cooperative international economic order. I am convinced that the establishment of this Fund is in the best interest of the United States, and that it warrants the strong and unified support of the United States Government.

Basic Principles of the Support Fund Proposals

The Agreement to establish the Support Fund originated in parallel proposals developed by the United States and by the Secretary General of the OECD. The Administration's decision to propose a Financial Support Fund, and the bill before the Subcommittee today, reflect our belief that the major industrial oil consuming countries must join a cooperative response to their common economic and financial problems.

The proposals for a Financial Support Fund have their roots in intense worldwide concern that the oil importing world would not be able to manage the financial and economic consequences of the oil price increases. To date, the oil consuming countries have been able to do so. But with today's extremely high oil prices, there is a continuing and serious danger that a country could be moved to adopt inappropriate policies by the unavailability of financing on reasonable terms -- or even out of concern that financing would not be available in the future -- and that other countries would respond in kind to protect their own positions.

We are fortunate that widespread resort to restrictive and aggressive practices, such as restrictions on trade and investment, has been avoided thus far. With certain exceptions, oil importing countries have refrained from restrictive controls and have managed their affairs in a way that has not shifted great burdens on to others -- in part because the more flexible exchange rate arrangements now in place have allowed for greater adaptability to changing international circumstances, in part because capital markets and existing financing arrangements have worked well in facilitating the flow of credit to those in need, and in part because of the temporarily reduced import demand resulting from the world-wide recession.

We cannot expect that this will continue to be the case. Economic recovery will stimulate import demand. The disruption and imbalances caused by the oil price increases remain serious. Countries may in some cases be approaching the limits of prudent use of their reserves or of existing sources of credit, and there is no certainty that financing will remain available to individual countries in adequate amounts on reasonable terms. Our ability to maintain an open and liberal trade and payments system is not assured.

For this reason we feel that a supplemental official financing arrangement is required at this time -- a particular kind of financing arrangement. We are opposed to the suggestions which have been put forward for a more or less open-ended official financing facility, utilizing special incentives to attract the oil exporters' funds, and displacing private markets and other existing channels. We favor a different concept, and the proposed Support Fund is based on a different set of principles, as follows:

First, we do not want a permanent official financing mechanism. The oil financing problem we foresee is large in magnitude but limited in duration. The buildup of OPEC's financial claims on the rest of the world will taper off -- and eventually end -- as the world's efforts to conserve energy and to develop alternative supplies reduce the costs of oil imports, and as the oil exporting countries rapidly increase their own imports to meet development needs. Our assessment is that the largest annual imbalances between the oil importing and oil exporting country groups have already occurred, and that the imbalances will diminish and disappear altogether by the end of this decade. The OPEC surplus of $60 billion last year is expected to fall to around the $40 billion range this year. The real effects of the oil price increase -- the economic dislocations and forced adjustments, the transfers of real resources to the oil exporting countries as they utilize their financial claims -- will persist. But the financing problem is transitional, temporary, and if we act with foresight, manageable.

As a permanent body, the International Monetary Fund (IMF) should and will continue to serve as the central source of multilateral official payments financing for a well-functioning world economy. For the transitory, though potentially large, financing demand we foresee in the period immediately ahead, it is neither desirable to create a permanent new mechanism, nor to graft on to the IMF's permanent liquidity structure the capacity to meet such a demand. Thus, the Financial Support Fund is temporary. It will cease new loan operations after two years by which time the period of potential exceptional need should have passed.

Second, we believe that any new official arrangement should not displace or preempt existing private or official financing channels, and should come into play only in the event alternative financing channels fail to meet the need. Existing financial arrangements, private and official, are working well and adapting well to the demands placed on them. We believe that they will continue to operate well in the future. And by providing confidence in the underpinnings of the system as a whole, the existence of the Support Fund will strengthen the operations of the private markets. The Financial Support Fund is expressly designed as an insurance mechanism, a supplemental "safety net," that will be activated only in the event alternative sources of financing prove inadequate, and only after a potential borrower has made the fullest appropriate use of alternative sources of financing available.

Third, we believe that any new financing arrangement must provide discipline as well as insurance. It must address the sources of countries' economic problems -- energy, economic management -- not just the financial symptoms. A fundamental requirement for participation in the Support Fund is a commitment to cooperation in energy and economic policy. Any loans extended by the Financial Support Fund will carry specific policy conditions, related both to a borrower's general e onomic policy and its energy policy. Before receiving a loan, a country must satisfy a large majority of the Governing Committee not only that it has a genuine need for funds and has made appropriate use of other sources of financing, but also that it has in place measures adequate to redress its problems. Selection of the OECD as the organizational framework for the Support Fund provides a parallel with the use of the OECD as the framework for the International Energy Agency.

Fourth, we believe any new financial arrangements should avoid offering the oil exporters special financial or economic incentives to invest their funds in the markets of the participating countries. Such incentives are not necessary and would serve only to increase the effective cost of oil to the oil importing world. The oil exporters already have a strong incentive to place the bulk of their financial surpluses in the capital markets of the major countries of the OECD -- there is little practical alternative -- and markets in the recipient countries in most cases prove to be capable of "reshuffling" the funds among borrowers if distributional problems do arise.

Finally, we believe that any new financial arrangement established to protect against a common danger must provide for full and equitable sharing of risks. The Financial Support Fund has elaborate provisions to assure that all risk is shared in proportion to countries'agreed quotas.

In summary, the principles on which the Support Fund is based are appropriate to the international economic situation and needs in the wake of the oil price increases:

-- It is temporary, not a permanent new piece of international financial machinery;

-- It is an insurance mechanism which will be used only in event of demonstrated need, not a competitor to private markets;

-- It provides discipline. It addresses nations' real economic problems, not financial symptoms, and requires appropriate policies -- in both the energy and general economic ares -- to deal with their real problems.

-- It is based on cooperation among the major oil importing countries, and does not depend on the agreement or active assistance of the oil exporting nations. It thus allows the oil importing nations to pursue cooperation in energy without excessive financial dependence on the oil exporting countries.

-- It is a cooperative response to mutual problems of the oil importing nations. It recognizes that the dangers faces are faced by all, and incorporates an equitable sharing of risk as an integral part of its operations.

U.S. Participation in the Operations of the Fund

The Support Fund will consist of national commitments totaling 20 billion special drawing rights, equivalent to approximately $24 billion at present exchange rates, to

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backstop financing needs. Each member will have a quota in the Support Fund that will determine:

-- Its share in financing loans made by the Fund;

-- Its share in risks on loans made by the Fund;

-- Its voting rights (each member has a number of votes proportional to its quota)

-- Its maximum financial liability to the Fund; and

-- Its access to the resources of the Fund.

The proposed U.S. quota is SDR 5,560 million, or approximately $6.6 billion at the present SRD-dollar rate. The U.S. quota represents 27.8 percent of total quotas, which are apportioned on the basis of participants' relative weights on world GNP and trade.

All countries' financial rights and obligations with respect to the Support Fund will be denominated in the Special Drawing Right of the IMF. A common denominator is essential to assure that countries' relative contributions to the Support Fund do not change as a result of changes in exchange rates, and to assure that the fundamental risk sharing objectives of the Support Fund are met. The SDR, valued in terms of a collection of major currencies, was chosen as the common denominator because it is a "neutral" accounting unit, under which all participants accept some of the exchange risk inevitable in international financial operations. The SDR does not give special treatment to any currency or country, as would be the case if an individual national currency were used, and thus represents an equitable exchange risk sharing arrangement.

Because the Support Fund operates as an insurance mechanism, resources will not be required until a specific need arises. Commitments would be on a stand-by basis -- that is, there would be no "paid-in" capital, but an undertaking on the part of each member to participate in financing a loan which the Support Fund decides to make to a member in need.

Loans by the Support Fund will be financed in either of two ways: through borrowings by the Support Fund on world financial markets, on the basis of the collective guarantee of all members; or by "individual commitments" of members. The technique to be used for a given loan will be determined by the Governing Committee of the Support Fund at the time of the decision to make the loan. In each case, calls on members for financing will be in proportion to their quota shares of the loan to be financed.

In the case of individual commitments, each country will have the option of extending a loan directly to the Support Fund to cover its share of the financing, or providing an individual guarantee to allow borrowing by the Support Fund in the amount of that member's share. We expect to utilize the second, or guarantee, option for the U.S. share of any individual commitments approved by the Support Fund, and we believe that this is also the intent of most other participants.

The proposed legislation thus provides for the United States to meet its financial commitments to the Support Fund through the issuance of guarantees -- individual or collective. The United States would actually have to transfer funds under these guarantees only if a member that has borrowed from the Support Fund failed to make a payment on the corresponding loan.

In the unlikely event the U.S. should decide to extend a direct loan to the Support Fund -- for example, if the markets were very unsettled or if there were an immediate crisis need for funds -- the United States could make a direct loan from the resources of the Exchange Stabilization Fund (ESF) pursuant to existing authority. Thus no further authorization need be included in the proposed legislation. The resources of the ESF could also be used to meet the obligation of the United States on its individual or collective guarantees to make immediate transfers of amounts due.

This bill authorizes appropriations to replenish the resources of the ESF if used for transfers to the Support Fund for either of these purposes. Appropriations would be sought if needed and as needed. Since we doubt that it will ever be necessary to use ESF resources for these purposes, we do not believe it is necessary or desirable to seek appropriations now, in anticipation of unpredictable and highly contingent obligations.

Areas of Concern

Mr. Chairman, let me respond to several concerns about the Support Fund that have been expressed by some members of Congress.

One concern is that the availability of this source of credit to the major industrial countries might be construed by OPEC members as evidence that oil importers are able to pay higher oil prices and thus encourage them to raise prices more or faster than would otherwise be the case. I disagree with this interpretation.

The Support Fund should not have the effect of encouraging oil exporters to raise or maintain their prices; it is designed to have the reverse effect. The most effective strategy for reducing oil prices is to promote economic security as an underpinning for cooperative action in the energy area. The provision of financing through the Support Fund would be for overall balance of payments needs -- not for making oil payments -- and would be conditioned on cooperative policies in the energy area to reduce dependence on over-priced imported oil. The consequences of a failure to provide needed financing would probably not fall primarily on oil imports, but would much more likely take the form of harmful trade and capital restrictions and excessive currency depreciation which sould stimulate successive rounds of retaliation, or inappropriately restrictive domestic policies.

A second concern is that the Support Fund is dedicated to helping the strongest economic powers instead of concentrating U.S. efforts on the poorest countries. In recent weeks we have again demonstrated the depth of our commitment to assisting the developing countries through proposals for cooperation and assistance in a variety of multilateral forums. The Support Fund is obviously directed in the first instance to the developed countries. But this does not mean that the Support Fund is irrelevant to the needs of the developing nations. The Support Fund will make a major contribution to the developing countries by supporting economic recovery in the industrial nations and the maintenance of an open and liberal world economy. There is nothing that we can do for the LDCs directly through aid that is going to be nearly as important as our ability to sustain a vigorously expanding and non-inflationary world economy. The Support Fund is also an integral part of the cooperative international response to the energy situation which has had such severe effects on the LDCs.

At the same time, it is appropriate to emphasize that the Support Fund is not a foreign aid device. It is a mutual insurance arrangement, where the major nations can cooperate to protect against the risk of financial and economic disruption that would have disastrous consequences for the entire world economy. All nations will benefit, and all participants will share the costs and risks involved in its operations. The United States, if the need arose, would have the same rights to draw on the Support Fund as any other participant. The Support Fund will lend only at market rates of interest. Its loans will be medium-term, seven years at a maximum, and will carry effective policy conditions. The aim is to assure that financing will be available -- not that it will be available on the concessional terms of an aid program.

A third concern is that the Support Fund seems to place all of the financing risk on the OECD countries, and does not require the oil producers to bear some of the risks and share some of the responsibilities for dealing with the problems their policies have created. It has been suggested that oil exporter participation in the Support Fund, or an expansion of the IMF's special oil facility, might be preferable.

Actually, the Support Fund reduces risk to the oil importers -- the risk that they might be forced to accept onerous economic or political conditions as a price for needed financing. It frees the oil importers from a dependency that could weaken their resolve to participate in a cooperative response to the energy situation, which is a basic objective of the Support Fund. It would be anomolous to invite the exporters to help shape that response.

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There is no way to compel the oil exporting nations to accept the risk of lending to particular countries. The oil producing nations have -- and should have -- the freedom to invest where they wish, accepting the normal risk associated with investment. And they have been making a number of investments in the form of loans to OECD member countries. On these loans they take the normal risk. We welcome such arrangements. But the Support Fund will give the borrowing countries an alternative to dependence on OPEC loans and thus put them in a position to resist demands on the part of OPEC lenders which would give them excessive influence over the policies of the borrowers. For my part, I am persuaded that the OECD group, whose members share a fundamental harmony of interests, is the preferable forum for development of a cooperative and effective response to the energy and economic problems of the oil importing nations.

I should note also that the IMF oil facility does not require the oil exporters to assume risk. Repayment of their loans to the oil facility -- which at present carry reasonably favorable rates of interest as well as a form of exchange value protection -- is guaranteed, essentially by the quota subscriptions of the industrial nations. If a borrower from the oil facility were to default, the lenders to the oil facility would nevertheless be repaid on schedule. The oil facility is thus an attractive, no risk investment outlet. Moreover, if the IMF were to become significantly dependent on credit from the oil exporters, these countries could gain considerable influence over the IMF's general policies and operations at little cost.

A fourth concern is that there be adequate reporting to the Congress on the status of Support Fund operations and U.S. participation. The Annual Reports of the National Advisory Council and the Secretary of the Treasury will include a section on the operations of the Support Fund. The Congress will also receive information on Support Fund transactions, to the extent of any U.S. obligations to the Fund, in the annual report transmitted to the Congress on The Exchange Stabilization Fund.

We have every desire to keep the Congress informed on the Support Fund, and should the Committee have any other suggestions to improve reporting on the work of the Fund, I would be pleased to receive them.

Nature of the U.S. Commitment

We remain committed to the International Monetary Fund as the central multilateral institution to help assure a well-functioning world economy. A suitably expanded and

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reformed IMF provides the permanent framework for economic and financial cooperation. Negotiations to strengthen its ability to perform this function are nearing completion. Two of three major components of the monetary negotiations have been settled. The Interim Committee, at its recent meeting, made a major breakthrough in reaching agreement on increases in the quotas of almost all members, and on arrangements for phasing gold out of the monetary system.

The Interim Committee will now seek to develop acceptable amendments to the IMF's exchange rate provisions by the time of its next meeting in January, so that action can be taken on the complete package of quotas and amendments that have been under consideration.

I am confident that this objective can be met. I am also confident that the spirit of cooperation inherent in the Support Fund has contributed importantly to the atmosphere of cooperation and good will surrounding the monetary negotiations in the IMF -- where concessions and compromise on matters of longer term significance for the system have been required of all.

In essence, the Support Fund is designed to provide confidence:

-- Confidence to participants in their ability to handle their own economic and financial problems, and to deal with their energy-related financing needs, without dependence on the oil exporting countries; and

-- Confidence to the private markets in the strength and integrity of the system as a whole.

Without such confidence, nations might turn to destructive and self-defeating practices in an effort to preserve their own positions. Once started, such action could quickly spread -- with disastrous consequences for the world economy which the United States could not escape.

I know from my discussions with other Finance Ministers that the <u>prospect</u> of the Support Fund -- and our own demonstration of willingness to cooperate through it -- have already strengthened nations' resolve to avoid restrictive and unfair practices. The agreement this spring to renew the OECD trade pledge, despite considerable concern and hesitation on the part of some, provides tangible evidence of the beneficial impact the Support Fund can have.

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If the need for Support Fund financing does arise, its provisions are expressly designed to assure widespread participation in financing by members, and to assure an equitable distribution of risk regardless of financing technique. The burdens of financing and risk will thus not fall to the one or two countries that may be in a relatively strong position at the time financing is needed. As you are well aware, the United States has found itself in this position in the past. I consider it far better to have an appropriately designed and equitable multilateral structure in place if the need arises, than to rely on ad hoc efforts to deal with a sudden crisis. The Support Fund spreads the risk, and its rules for decisions on loans -- requiring two-thirds majority vote at a minimum -- afford the United States an appropriate degree of control over its operations. We hope the Support Fund will not have to be used. But if the occasion arises, we will be fortunate that it is available.

I am not unaware that at a time of many pressing problems at home, questions are raised as to the direction in which we should be devoting our attention and our resources. I submit that the answer to these questions is that we must do what we believe is right both domestically and internationally. The danger in present circumstances is not that we will frivolously devote our attention to the international at the expense of the domestic; rather the greater risk is that we will turn inward.

Ultimately, the U.S. interest in the Support Fund lies in its contribution to world economic stability, stemming as much from the confidence it will engender as from its potential for providing needed financing. Agreement on establishment of the Support Fund represents a fundamental commitment to cooperation across the broad scope of economic issues. It is a political act which signifies and strengthens the common purpose of participating nations and their resolve to pursue cooperative solutions to mutual problems.

The participation of the United States in the Support Fund will convey unmistakably our commitment to cooperation in preservation of a liberal and open world economic system -- and it will do much to ensure that result. I urge your strong support in this endeavor.

oOo

REMARKS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
61ST ANNUAL MEETING OF THE
ASSOCIATED INDUSTRIES OF NEW YORK STATE
LAKE PLACID, N. Y., SEPTEMBER 18, 1975

MR. GEORGE, MR. KOESSLER, MR. SHAW, AND LADIES AND GENTLEMEN.

I AM DEEPLY HONORED TO JOIN ALL OF YOU HERE TONIGHT AS YOU OPEN THE 61ST ANNUAL MEETING TO THIS DISTINGUISHED ASSOCIATION. LOOKING OVER THE FRIENDLY FACES IN THIS AUDIENCE AND THE ROSTER OF SPEAKERS WHO WILL BE TALKING WITH YOU FRIDAY AND SATURDAY, I ONLY WISH THAT I COULD HAVE THE ADDITIONAL PLEASURE OF REMAINING HERE FOR THE FULL CONFERENCE.

WHEN CHARLIE GEORGE ASKED ME TO SPEAK TONIGHT, I WAS PARTICULARLY ATTRACTED BY THE IDEA THAT YOUR CENTRAL CONCERN HERE WOULD BE THE LONG-RANGE PROSPECTS FOR OUR SOCIETY. CERTAINLY, THERE IS NO SINGLE ISSUE THAT NEEDS TO BE CONSIDERED MORE SERIOUSLY AND THOUGHTFULLY BY THE LEADERS OF OUR BUSINESS AND FINANCIAL COMMUNITIES.

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I SHOULD WARN YOU THAT IF YOU WERE HOLDING THIS CONFERENCE IN WASHINGTON, YOU WOULD BE COMMITTING ONE OF THE CARDINAL SINS IN THAT CITY: YOU WOULD BE ASKING PEOPLE TO LOOK BEYOND THE DATE OF THE NEXT ELECTION. IT IS HARD TO BELIEVE HOW MUCH ATTENTION AND ENERGY IS DEVOTED THERE TO PUTTING OUT SMALL BRUSH FIRES. CONTINUALLY, IT SEEMS, THE GOVERNMENT IS FORCED INTO ATTACKING THE EFFECTS RATHER THAN THE CAUSES OF OUR PROBLEMS. THAT TENDENCY IS PARTICULARLY DISTRESSING TODAY BECAUSE IT OFTEN MEANS THAT POLITICAL CONSIDERATIONS ARE ALLOWED TO SHAPE POLICIES THAT SHOULD BE BASICALLY ECONOMIC IN CHARACTER, AND IN THE END WE WIND UP WITH BAD ECONOMICS AND BAD POLITICS. THIS PROCESS HAS CONTINUED FOR SO LONG, I BELIEVE, THAT WE HAVE DRIFTED FAR FROM OUR ECONOMIC MOORINGS -- SO FAR, IN FACT, THAT WE ARE NOW IN SERIOUS NEED OF REVERSING DIRECTIONS IN THIS COUNTRY.

I HAVE LEARNED FROM EXPERIENCE THAT YOU DON'T WIN ANY POPULARITY CONTESTS BY ASKING PEOPLE WHERE WE'RE HEADED IN

THIS COUNTRY AND WHAT CHOICES WE MUST MAKE FOR THE FUTURE. I AM SOMETIMES TOLD THAT'S BEEN ONE OF MY BIGGEST MISTAKES IN PUBLIC LIFE. BUT THE ISSUES MUST BE FACED, AND I AM DELIGHTED TO SEE YOU TACKLING THEM HERE.

THERE ARE SOME WHO LOOK BACK UPON THE APPARENT PROSPERITY OF THE 1960S AND CONCLUDE THAT OUR PRESENT ECONOMIC CIRCUMSTANCES ARE SIMPLY AN ABERATION -- AN IRRATIONAL NOSEDIVE IN OUR ECONOMIC FORTUNES THAT MUST SOMEHOW BE ATTRIBUTABLE TO ARAB SHEIKS AND RUSSIAN GRAIN PURCHASERS. NOTHING COULD BE MORE FATUOUS. THE PROBLEMS THAT WE HAVE IN OUR ECONOMY TODAY ARE THE NATURAL AND ALMOST PREDICTABLE OUTGROWTH OF MANY YEARS OF MISGUIDED POLICIES AND MISSED OPPORTUNITIES. THESE PROBLEMS ARE NOW DEEP-SEATED IN OUR SOCIAL AND ECONOMIC LIFE, AND THEY WILL NOT DISAPPEAR WITHOUT THE APPLICATION OF CONSISTENT AND PATIENT POLICIES. THE SINS OF A DECADE WILL NOT BE FORGIVEN FOR BY A SINGLE YEAR OF PENANCE.

LET'S LOOK BACK FOR A FEW MOMENTS TO THE 1960S -- THE "GO-GO" YEARS FOR OUR ECONOMY. THE PROSPERITY THAT WAS PROCLAIMED FROM WASHINGTON DURING THOSE YEARS WAS REALLY AN ILLUSION, FOR BENEATH THE SURFACE A DISEASE WAS BEGINNING TO GNAW AWAY AT THE FOUNDATIONS OF OUR ECONOMY -- THE SICKNESS OF INFLATION. IN THE EARLY 60S, INFLATION WAS CREEPING UPWARDS AT JUST OVER ONE PERCENT A YEAR. IN THE MID-60S, AS WE ACCELERATED OUR EFFORTS IN VIETNAM, LAUNCHED THE GREAT SOCIETY AND TRIED TO BUY PERMANENT PROSPERITY, THE INFLATION RATE DOUBLED. THEN IN THE LATE 1960S IT DOUBLED AGAIN. WAGE AND PRICE CONTROLS SUPPRESSED INFLATION ARTIFICALLY AND ONLY TEMPORARILY BECAUSE AS HISTORY HAS SHOWN TIME AND AGAIN, CONTROLS NEVER END INFLATION -- THEY ONLY POSTPONE IT. IN 1973, PRICES SHOT UP OVER 6 PERCENT AND LAST YEAR THEY CLIMBED OVER 12 PERCENT -- THE STEEPEST JUMP IN OUR PEACETIME HISTORY.

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THE RESULTS WERE FORESEEABLE: IRRESPONSIBLE FISCAL AND MONETARY POLICIES -- WHICH WERE THE BASIC SOURCE OF OUR RAMPANT INFLATION -- TIPPED THE ECONOMY INTO RECESSION. AS RISING PRICES FORCED UP INTEREST RATES IN 1973 AND 1974, THE HOUSING MARKET FELL APART. CONSUMERS, THEIR REAL INCOME ERODED AND THEIR CONFIDENCE DESTROYED, BEGAN TO CUT DOWN ON THEIR PURCHASES AND WE EXPERIENCED THE BIGGEST DROP IN RETAIL SALES SINCE WORLD WAR II. WITH TWO LEADING SECTORS DRAGGED DOWNWARD UNDER THE PRESSURE OF INFLATION, THE ECONOMY PLUNGED INTO THE MOST SEVERE RECESSION IN MORE THAN A GENERATION.

THUS IT WAS INFLATION THAT WAS AT THE ROOT OF THE RECESSION, AND IF WE WANT TO AVOID ANOTHER RECESSION WITH MORE HUMAN MISERY, IT IS INFLATION THAT WE MUST CURE. AS ONE ECONOMIST HAS SAID, INFLATION AND UNEMPLOYMENT ARE LIKE OVEREATING AND INDIGESTION. "UNEMPLOYMENT IS THE INDIGESTION YOU GET AFTER YOU SWALLOW THE PILL OF INFLATION."

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But what caused this inflation? Where are the real culprits? Clearly, the quadrupling of oil prices and scarcities of food have had a major impact during the 1970s. As we have seen, however, inflation really began leaping upwards during the 1960s, so that if we want to know the underlying causes of inflation, then we must look back into that decade. It was in that decade that we find the roots of our trouble.

What we find since the mid-1960s are three rather remarkable developments -- trends that have little parallel in our history as a nation.

First, there has been an enormous growth in government spending. It took this Republic 186 years before the Federal budget reached \$100 billion. That was in 1962. Yet only nine years later the budget had doubled to \$200 billion. Then four years later -- in fiscal year 1975 -- it crossed the \$300 billion mark, and we will cross \$400 billion by 1977.

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As residents of New York State, you well know that there has also been a significant increase in State and local governmental spending, so that looked upon as a whole, the government now occupies a very dominant role in our economic life. Just before the Great Depression, government spending accounted for 12 percent of our Gross National Product; today government spending at all levels accounts for some 33 percent of our GNP; and if recent growth patterns continue, it will reach 60% before the end of this century. Any government which taxes away more than half of what people earn has robbed them of a great part of their economic freedom. And can there be any doubt that when our economic freedoms are destroyed, our personal and political freedoms will not be far behind?

It has never been politically popular, of course, to increase taxes, so that increased Federal spending has meant a string of Federal deficits -- 14 in the last 15 years. As

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A RESULT, THE GOVERNMENT'S REGULAR BUDGET AGENCIES AS WELL AS THE OFF-BUDGET AGENCIES -- THE CREATURES SET UP A FEW YEARS AGO PARTLY TO AVOID THE DISCIPLINE OF THE BUDGET PROCESS -- HAVE BEEN FORCED TO BORROW OVER A THIRD OF A TRILLION DOLLARS FROM OUR PRIVATE MONEY MARKETS OVER THE PAST DECADE -- MONEY THAT MIGHT OTHERWISE HAVE BEEN USED TO BUILD NEW PLANTS AND CREATE NEW JOBS IN THE PRIVATE SECTOR. THIS EXCESSIVE GOVERNMENTAL BORROWING, I MIGHT ADD, HAS ALSO PREVENTED INTEREST RATES FROM FALLING AS FAR AS THEY SHOULD HAVE. PARTLY IN AN EFFORT TO ACCOMMODATE THESE DEFICITS, MONETARY POLICY HAS ALSO PUMPED TOO MUCH STIMULATION INTO THE ECONOMY OVER THE PAST DECADE. THE MONEY SUPPLY OVER THE PAST 10 YEARS HAS BEEN GROWING AT ALMOST THREE TIMES THE RATE OF THE PREVIOUS 10 YEARS, SIGNIFICANTLY ADDING TO INFLATIONARY PRESSURES.

THE REASONS FOR THIS DRAMATIC GROWTH IN FEDERAL SPENDING ARE NOT HARD TO FIND. FOR YEARS, WE HAVE BEEN ELECTING

POLITICIANS WHO PROMISE US THAT WE CAN CLEAN UP OUR ENVIRONMENT, REBUILD OUR HOUSING STOCK, OVERHAUL OUR TRANSPORTATION, PUT EVERYONE THROUGH COLLEGE, FEED THE WORLD, EXPLORE THE UNIVERSE, AND SUPPORT EVERYONE ON A HIGHER STANDARD OF LIVING -- ALL AT THE SAME TIME. IT JUST CAN'T BE DONE, EVEN BY THE MOST POWERFUL NATION ON EARTH. WE CANNOT AFFORD GUNS AND BUTTER AT THE SAME TIME, JUST AS WE CANNOT BUY A GREAT SOCIETY ON THE LAYAWAY PLAN, OR ABOLISH THE BUSINESS CYCLE, NEITHER MAN NOR GOVERNMENT CAN CONTINUE LIVING BEYOND THEIR MEANS INDEFINITELY. EVENTUALLY THE PRICE MUST BE PAID -- EITHER THROUGH HIGHER TAXES OR THROUGH THE CRUELEST AND MOST REGRESSIVE TAX OF ALL, INFLATION. THAT IS ONE OF THE MOST IMPORTANT LESSONS WE SHOULD HAVE LEARNED FROM THE PAST DECADE.

LET US LOOK NOW AT A SECOND AND RELATED TREND WHICH HAS HAD A DESTRUCTIVE IMPACT UPON THE ECONOMY IN RECENT YEARS:

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THE ENORMOUS PROLIFERATION OF FEDERAL REGULATIONS AND LAWS WHICH RESTRICT THE OPERATION OF PRIVATE ENTERPRISE.

MANY OF YOU ARE PROBABLY FAMILIAR WITH THE MOST EGREGIOUS REGULATORY PRACTICES -- THOSE REQUIRING TRUCKS TO RETURN WITH EMPTY VANS, FOR INSTANCE, OR FORCING UP THE PRICES FOR INTERSTATE AIR TRAVEL. WHILE THESE ABUSES ARE SPREAD ACROSS THE REGULATORY LANDSCAPE AND COST CONSUMERS UNTOLD BILLIONS OF DOLLARS, IT IS PERHAPS IN THE ENERGY FIELD THAT GOVERNMENTAL REGULATION IS NOW CAUSING THE MOST SIGNIFICANT PROBLEMS. IT HAS BEEN APPARENT FOR MORE THAN 20 YEARS THAT THIS NATION WAS ON A COLLISION COURSE WITH ITS ENERGY POLICY. EXPERTS HAVE BEEN WARNING US AGAIN AND AGAIN THAT OUR DEMANDS WERE GROWING FASTER THAN OUR SUPPLIES. BUT INSTEAD OF ALLOWING THE PRIVATE ENTERPRISE SYSTEM TO RISE TO THIS CHALLENGE, AS IT CAN, WE HAVE ALLOWED THE GOVERNMENT TO ERECT ONE IMPEDIMENT AFTER ANOTHER TO DISCOURAGE GREATER PRODUCTION. IT CAN

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FAIRLY BE SAID THAT OUR ENERGY CRISIS, LIKE OUR INFLATION AND OUR RECESSION, SHOULD CARRY A LABEL: MADE IN WASHINGTON, D. C.

CONSIDER SOME OF THE WAYS THAT ENERGY PRODUCERS ARE BEING BOUND HAND AND FOOT BY THE GOVERNMENT.

-- DESPITE CONTINUAL WARNINGS FROM EXPERTS, THE FEDERAL POWER COMMISSION HAS BEEN REQUIRED FOR MORE THAN TWO DECADES TO KEEP THE WELLHEAD PRICE OF NATURAL GAS AT AN ABNORMALLY LOW LEVEL IN ORDER TO HOLD DOWN PRICES FOR CONSUMERS. BUT THESE CONTROLS HAVE REDUCED THE INCENTIVES FOR DEVELOPMENT OF NEW DOMESTIC SUPPLIES, SO THAT PREDICTABLY THERE IS MUCH LESS NATURAL GAS THAN WE NEED TODAY. NEW YORK IS ONE OF A DOZEN STATES IN THE EASTERN PART OF THE COUNTRY WHICH COULD BE SEVERLY HIT BY A NATURAL GAS SHORTAGE THIS WINTER. WE ARE PUSHING EMERGENCY LEGISLATION WHICH WOULD HELP TO AMELIORATE THE EFFECTS OF THE SHORTAGE, BUT THE ONLY REALISTIC SOLUTION TO THIS PROBLEM ON A LONG-TERM BASIS IS TO END THE

DISINCENTIVES FORCED UPON PRODUCERS BY GOVERNMENTAL REGULATION.

-- INSTEAD OF LEARNING FROM THE NATURAL GAS EXPERIENCE, WE ARE NOW REPEATING OUR MISTAKES IN THE OIL INDUSTRY WHERE WE HAVE AGAIN IMPOSED PRICE CONTROLS. AND AGAIN THE RESULT IS PREDICTABLE: BY CONTROLLING THE PRICE OF DOMESTIC OIL AND THUS REDUCING THE INCENTIVE FOR NEW PRODUCTION, WE ARE FORCING CONSUMERS TO BUY MORE EXPENSIVE PRODUCTS FROM FOREIGN OIL SOURCES AND ARE WILLINGLY SUBJECTING OURSELVES TO THEIR BLACKMAIL. ONCE AGAIN THE ANSWER IS DECONTROL.

-- IN THE FIELD OF NUCLEAR ENERGY, THE STORY IS AGAIN A SAD ONE. THIS COUNTRY WAS A PIONEER IN THE DEVELOPMENT OF NUCLEAR POWER. YET TODAY IT CAN TAKE UP TO 11 YEARS TO BUILD A NUCLEAR POWER PLANT IN THE UNITED STATES AND ONLY 4 TO 4½ YEARS IN EUROPE AND JAPAN. NUCLEAR ENERGY PROVIDES LESS THAN 2% OF OUR CURRENT ENERGY CONSUMPTION -- FAR BELOW ITS POTENTIAL. WHY? BECAUSE OF EXCESSIVE GOVERNMENTAL

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REGULATION WHICH IMPEDES THE CONSTRUCTION OF MORE NUCLEAR PLANTS.

-- OR CONSIDER THE CASE OF COAL. THIS NATION HAS ABOUT A THIRD OF ALL THE RECOVERABLE COAL RESERVES IN THE WORLD. WE ARE THE LARGEST EXPORTER OF COAL IN THE WORLD, AND AT 1973 LEVELS OF CONSUMPTION WE HAVE ENOUGH COAL TO BURN FOR 800 YEARS. YET, BECAUSE OF EXCESSIVE GOVERNMENTAL INTERVENTION, COAL PRODUCTION IN THE UNITED STATES TODAY IS LOWER THAN IT WAS THIRTY YEARS AGO.

I RECOGNIZE THAT SOME OF THESE IMPEDIMENTS TO ENERGY PRODUCTION REFLECT PUBLIC CONCERN ABOUT PUBLIC HEALTH AND PROTECTION OF OUR ENVIRONMENT. BUT THROUGH BALANCED POLICIES WE CAN MEET THOSE CONCERNS AND EXPAND OUR ENERGY SUPPLIES AT THE SAME TIME. I DEEPLY BELIEVE THAT IT IS TIME FOR THE CONGRESS TO STOP ITS ENDLESS DEBATES ON ENERGY AND START WORKING WITH THE PRESIDENT ON A NATIONAL ENERGY POLICY THAT ENCOURAGES BOTH CONSERVATION AND GREATER PRODUCTION. EITHER

WE WAKE UP TO THIS CHALLENGE SOON, OR WE ARE GOING TO FIND THAT, LIKE SAMSON, WE HAVE GIVEN IT ALL AWAY TO THESE MODERN-DAY DELIALAHS OF THE MIDDLE EAST.

LET ME TURN NOW TO A THIRD TREND OF RECENT YEARS: IT IS A TRAGIC FACT THAT OVER THE LAST DECADE, AS THE FORCES OF BIG GOVERNMENT HAVE BEEN OVERFED AND OVERNOURISHED, THE PRIVATE ENTERPRISE SYSTEM HAS GRADUALLY BEEN WEAKENED. AS WE HAVE STRENGTHENED THE PUBLIC SECTOR, WE HAVE DIRECTED BILLIONS OF DOLLARS AWAY FROM THE PRIVATE SECTOR AND WE HAVE DISCOURAGED VITALLY NEEDED SAVINGS AND INVESTMENT IN THE FUTURE.

THE RECORD OF CAPITAL INVESTMENT IN THE UNITED STATES IN RECENT YEARS HAS BEEN IN THE LOWEST OF ANY MAJOR INDUSTRIALIZED NATION IN THE FREE WORLD. NOT SURPRISINGLY, OUR RECORD OF PRODUCTIVITY GROWTH DURING THIS SAME PERIOD WAS ALSO AMONG THE LOWEST OF THE MAJOR INDUSTRIALIZED NATIONS.

WHY HAVE WE FAILED TO BUILD AND EXPAND OUR INDUSTRIAL BASE? A FUNDAMENTAL REASON, I WOULD ARGUE, IS THAT WE HAVE HAD POLICIES WHICH PROMOTE PERSONAL CONSUMPTION AND FEDERAL SPENDING AT THE EXPENSE OF PERSONAL SAVINGS, INVESTMENT AND CAPITAL FORMATION. TOO MANY OF OUR FINANCIAL RESOURCES HAVE BEEN DIVERTED FROM THEIR MOST PRODUCTIVE USE, THE PRIVATE SECTOR, TO THEIR LEAST PRODUCTIVE USE, THE GOVERNMENT. A RELATED PART OF THE PROBLEM HAS BEEN THE SERIOUS DETERIORATION IN CORPORATE PROFITS SINCE THE MID-1960S. CONTRARY TO POPULAR OPINION, AFTER-TAX PROFITS MEASURED IN REAL TERMS HAVE DROPPED BY 50 PERCENT SINCE 1965. IT IS NOT UNFAIR TO SAY THAT WE HAVE BEEN AND REMAIN TODAY IN A PROFITS DEPRESSION IN THE UNITED STATES.

THE INTERACTION OF THE VARIOUS LONG-RANGE TRENDS THAT I HAVE MENTIONED HERE TONIGHT -- EXCESSIVE FISCAL AND MONETARY POLICIES, OVERZEALOUS REGULATION BY THE GOVERNMENT, AND INADEQUATE CAPITAL FORMATION AND ECONOMIC GROWTH -- HAS HAD

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A NUMBER OF EFFECTS WITHIN THE ECONOMY, BUT NONE HAS BEEN MORE SIGNIFICANT THATN THE GENERAL INFLATION THAT HAS RESULTED. THESE ARE THE ROOT CAUSES OF THE INFLATION THAT BEGAN HEATING UP IN THE 1960S. THESE ARE AT THE CORE OF THE INFLATIONARY PSYCHOLOGY WHICH STILL GRIPS OUR NATION. AND AS WE WORK OUR WAY OUT OF THIS RECESSION -- AS WE ARE TODAY -- THESE MUST CONTINUE TO BE AT THE CENTER OF OUR ATTENTION.

WHEN YOU SEE THINGS IN THIS LIGHT -- WHEN YOU RECOGNIZE THAT INFLATION HAS BEEN THE MAJOR CAUSE OF RECESSION AND THAT OUR INFLATION IS ROOTED IN MISGUIDED POLICIES OF THE PAST -- THEN YOU CAN ALSO UNDERSTAND THE FOUNDATIONS OF THE ADMINISTRATION'S ECONOMIC POLICIES. LET ME SUMMARIZE OUR ESSENTIAL GOALS FOR YOU.

CLEARLY OUR FIRST AND PRIMARY OBJECTIVE MUST BE TO ACHIEVE A SOLID ECONOMIC RECOVERY. THE PROCESS OF RECOVERY HAS OBVIOUSLY BEGUN AND ON THE BASIS OF A WIDE RANGE OF ECONOMIC INDICATORS, WE THINK THAT IN COMING MONTHS IT WILL

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BE VIGOROUS AND HEALTHY. NOW OUR TASK IS TO MANAGE THE RECOVERY SO THAT IT WILL ALSO BE DURABLE AND LASTING. TO ACHIEVE THAT GOAL, WE BELIEVE IT IS ESSENTIAL TO STRIKE A SOUND BALANCE IN OUR POLICIES -- PROVIDING ENOUGH FUEL TO THE ECONOMY TO CONTINUE OUR FORWARD MOMENTUM BUT CAREFULLY AVOIDING MEASURES WHICH WOULD PROPEL US BACK TO PROSPERITY AT BREAKNECK SPEED AND SURELY BRING ANOTHER SPURT OF INFLATION. TWICE IN THE LAST DECADE WE AVE ENGAGED IN STOP-AND-START POLICIES, AND EACH TIME WE HAVE TAKEN A ROLLERCOASTER RIDE THAT LEFT US WORSE OFF THAN BEFORE. LET US HAVE PROGRESS BUT, FOR A CHANGE, LET'S MAKE IT FIRM AND DURABLE; LET'S WARM UP THE ECONOMY BUT, FOR A CHANGE, LET'S NOT OVERHEAT IT.

AS WE GO ABOUT THAT TASK, I BELIEVE IT IS CRUCIAL THAT THE NATION ALSO MAKE A FIRM, DEDICATED EFFORT TO REVERSE THE THREE LONG-RANGE TRENDS THAT I MENTIONED EARLIER.

WE MUST BRING A HALT TO RUNAWAY FEDERAL SPENDING AND INTRODUCE GREATER BALANCE TO OUR FISCAL AND MONETARY POLICIES.

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WE MUST LIFT THE DEAD HAND OF GOVERNMENTAL REGULATION THAT IS IN THE PROCESS OF STRANGLING OUR PRIVATE ENTERPRISE SYSTEM.

AND WE MUST CREATE A MORE FAVORABLE ENVIRONMENT FOR THE GROWTH OF CAPITAL INVESTMENT SO THAT WE CAN CREATE MORE JOBS FOR A GROWING LABOR FORCE AND CONTINUE TO RAISE THE STANDARD OF LIVING FOR ALL AMERICANS. LET US RECOGNIZE THAT CAPITAL CREATION IS REALLY JOB CREATION, AND THAT JOB CREATION MEANS AN EXPANDED WORK FORCE, HIGHER REAL EARNINGS AND LOWER PRICES FOR CONSUMERS. OVER THE NEXT DECADE, OUR TOTAL CAPITAL INVESTMENT NEEDS WILL BE TRIPLE THOSE OF RECENT YEARS. LET THERE BE NO DOUBT HERE TONIGHT THAT MEETING THIS CAPITAL INVESTMENT GOAL IS ONE OF THE BEST MEANS WE HAVE OF OVERCOMING THE INDUSTRIAL PROBLEMS OF CITIES THROUGHOUT THE NORTHEAST. TWO MONTHS AGO THIS ADMINISTRATION INTRODUCED FAR-REACHING TAX PROPOSALS SPECIFICALLY DESIGNED TO PROMOTE

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GREATER CAPITAL AND JOB FORMATION. WITHOUT DISCUSSING THE SPECIFICS HERE, I URGE YOU TO EXAMINE THOSE PROPOSALS AND TO LEND US YOUR STRONG SUPPORT.

LADIES AND GENTLEMEN: WHAT ALL THIS BOILS DOWN TO IS A FUNDAMENTAL CHOICE ABOUT THE FUTURE OF OUR GREAT REPUBLIC. I SINCERELY BELIEVE THAT WE HAVE REACHED A CROSSROADS IN OUR NATION'S HISTORY. FOR MORE THAN 40 YEARS WE HAVE BEEN GRADUALLY INCREASING THE POWER OF THE CENTRAL GOVERNMENT IN OUR DAILY LIVES. AS OUR FREEDOMS HAVE BEEN CHIPPED AWAY, YEAR IN AND YEAR OUT, WE HAVE ALSO LOST SOME OF THAT GLOW THAT WAS PARTICULARLY DISTINCTIVE ABOUT THE AMERICAN EXPERIENCE -- OUR BOLDNESS AND VITALITY HAVE BEEN DRAINED A BIT; OUR INGENUITY HAS BEEN CHALLENGED BY NATIONS AROUND THE WORLD; WHY, SOME NATIONS HAVE EVEN COME TO BELIEVE THEY CAN PLAY US FOR PATSIES, AND ALAS, OUR FREE ENTERPRISE SYSTEM -- THE GREATEST ENGINE FOR SOCIAL PROGRESS THAT THE WORLD HAS EVER KNOWN -- HAS SLOWED DOWN PERCEPTIBLY SO THAT NOW

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IT IS CHUGGING ALONG IN SECOND GEAR, FAR BELOW ITS POTENTIAL.

I BELIEVE THAT THE TIME HAS NOW COME TO CHOOSE -- TO CHOOSE BETWEEN A CONTINUATION OF THE LAST 40 YEARS, A TREND THAT WILL EVENTUALLY MEAN THAT OUR ECONOMIC AND POLITICAL FREEDOMS WILL BE SACRIFICED AND THAT OUR SOCIETY WILL BE RUN BY THE SAME FREE SPENDERS WHO HAVE GIVEN US THE WORST INFLATION IN OUR PEACETIME HISTORY AND THE WORST RECESSION IN MORE THAN A GENERATION, OR AS AN ALTERNATIVE, THAT WE RESTORE OUR BASIC FREEDOMS AS AMERICANS, REVIVE OUR PRIVATE ENTERPRISE SYSTEM, AND REASSERT AMERICA'S SENSE OF DESTINY IN THE WORLD.

THIS IS THE CHOICE THAT WE MUST MAKE AS A NATION IN COMING YEARS. THIS IS THE CLASSIC CHOICE BETWEEN FREEDOM AND SOCIALISM. THIS IS THE CHOICE THAT WILL SHAPE THE LIVES OF OUR CHILDREN AND OUR CHILDREN'S CHILDREN.

I HAVE ALWAYS BELIEVED THAT EVERY PUBLIC OFFICIAL MUST TAKE THIS AS HIS HIGHEST GOAL: TO TURN OVER TO OUR CHILDREN

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A NATION THAT IS STRONGER AND BETTER -- THAT OFFERS GREATER OPPORTUNITIES FOR PERSONAL AND SPIRITUAL FULFILLMENT -- THAN THE NATION WE HAVE INHERITED. I FIRST CAME TO WASHINGTON BECAUSE -- AS CORNY AS IT MAY SEEM -- I WANTED TO REPAY A SMALL AMOUNT OF WHAT THIS COUNTRY HAS GIVEN ME. AND I AM PROUD TO BE THERE. BUT WHEN I SEE THE ABUSES THAT WASHINGTON HAS INFLICTED AND IS CONTINUING TO INFLICT UPON PRIVATE ENTERPRISE AND UPON OUR FREEDOMS, I CAN ONLY SHUDDER ABOUT THE WORLD THAT WE ARE BUILDING FOR OUR CHILDREN. I BELIEVE THAT THE TIME HAS COME FOR NEW DIRECTIONS IN THIS COUNTRY -- TO SET THE SHIP OF STATE ON A NEW COURSE. AND I BELIEVE THE AMERICAN PEOPLE KNOW THIS. THERE IS NO QUESTION IN MY MIND THAT THE PEOPLE OF THIS COUNTRY WANT A FRESH START, AS THE PRESIDENT HAS SAID. BUT I ALSO BELIEVE THAT WE WILL MAKE THE RIGHT CHOICES ABOUT THE FUTURE ONLY IF MORE OF OUR CITIZENS -- AMERICANS OF STRENGTH AND CHARACTER LIKE THOSE

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OF YOU HERE TONIGHT -- ARE WILLING TO FIGHT FOR THEIR CONVICTIONS. I UGE YOU TO STAND UP AND BE COUNTED.

THANK YOU.

# # # # # #

political ones, we have succumbed to the wrong instincts. Both Democrats and Republicans have made the same mistakes. And the result has been a sad record of stop-and-go policies that have only accentuated the forces of expansion and contraction and, in fact, must be held accountable for a significant amount of our current economic troubles.

In view of that record and considering the vigor of the recovery that is now underway, I would suggest that this is not a time for "politics as usual" -- not for fancy, headline-catching action in Washington -- but for a calm, steady hand on the tiller. We must not be rigid in our approach. Very shortly, for instance, we must decide whether to extend the recent tax cut and it is important that we maintain an open mind on that issue. But contrary to past practice, I would hope that our answer would be dictated more by economic than by political considerations.

A few days ago, I asked one of the top economists in the government about his views on the tax questions, and he said, "I've been in the government so long that I'm not sure whether my opinions are based on economics or politics." While that surely happens to the best, it is a tendency we must learn to resist.

The recovery that we've experienced in the last several months does, I believe, provide solid grounds for encouragement. It came earlier and it has been stronger than most forecasters predicted, and I think that it will continue to be stronger and that the unemployment rate will come down more rapidly than many now think. Let's look for a moment at the dimensions of the recovery:

-- 1.5 million jobs have been added to the work force since March.

-- The unemployemnt rate has held steady at 8.4% for two months in a row, significantly below the 9.2% peak reached in May.

-- After sliding downwards for five consecutive quarters, including a decline of 11.4% on a annualized basis during the first quarter of this year, the Gross National Product has reversed course, rising at a 1.6% annual rate in the second quarter.

-- Industrial production has now risen four months in a row, and the August increase of 1.3% was the biggest single increase in three years.

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-- The composite of 12 leading economic indicators has now moved up strongly for five months in a row.

-- Inventories have been sharply reduced, opening the way to rising production levels.

-- And exports are up considerably.

Moreover, the Government is supplying a great deal more stimulus to the economy than most people realize. You will often read that the $44 billion deficit incurred by the Federal Government in fiscal year 1975 resulted from a loss of revenue caused by the recession. That is partially true. But it is also true that Federal outlays during that year were $56 billion higher than the year before -- a 21 percent increase and the biggest single percentage increase in more than two decades. Monetary policy has also been stimulative as the total of currency and bank demand deposits -- the M_1 money supply, as it is called by economists -- has increased at an annualized rate of over 8-1/2% the first half of this year.

A compilation of 21 well-known, private economic models show that 10 of them now predict that real growth in the third quarter will be over 5 percent, and 10 of them show it will be in excess of 6 percent. Similar growth patterns are foreseen for the fourth quarter and into 1976. Within the government itself, we now anticipate a moderate to strong expansion of real output extending through the second half of the year into 1976. And if we manage the recovery properly -- if we exercise a high degree of prudence -- then we believe that the recovery will be both sustained and vigorous beyond that time.

I hasten to re-emphasize the need for prudence because there are certainly a number of shoals ahead and we must be careful to avoid them.

The most obvious is the renewed threat of inflation. The inflationary surge that we've experienced in the last few weeks is directly related to increases in energy and food costs and we are hopeful that it will be only a bubble, soon passing out of the system. But it is also a grim reminder that even the most severe recession in more than a generation has not fully defeated the forces of inflation. Indeed, the rate of increase in the Consumer Price Index so far this year has averaged over 7%, more than triple the rate that I would consider acceptable over the long-run. And the last WPI figures also brought a significant increase in industrial prices.

A prolonged siege of new, double digit inflation would almost certainly wreck our hopes for a durable economic recovery. We must never forget that excessive inflation was the basic cause of the recession and that it remains our most fundamental economic problem. Administration critics argue that our concern with inflation reflects an insensitivity toward jobs and the poor: to the contrary, it is only by conquering inflation that we are going to achieve the long-range growth that is essential for the creation of new jobs. We do not have the luxury of choosing between jobs and inflation: experience teaches us that we must pursue both of these goals simultaneously. As we continue to stimulate the economy, then, it is essential that we also take extreme care in avoiding policy excesses which would whip up the inflationary forces that still plague our economy. For policy purposes, this means three things:

(1) We must maintain a stout defense against continuing efforts to bust the Federal budget. Earlier this year the country applauded as the President succeeded in vetoing several bills that would have cost the taxpayers an additional $6 billion before 1977. It has not been widely noticed, however, that since that time the Congress has begun to make serious inroads on the President's deficit ceiling of $60 billion. In fact, there is now a considerable question of whether the congress can contain itself within its own target of $68.8 billion deficit. The senate keeps a

scorecard on Congressional budget activities of the Congress, and in their most recent report they conceded that the Congress could overshoot its own target by over $5 billion. There can be no question that the most effective discipline that can be imposed upon the Congress is the voice of the people: if people back home fully support the effort to hold down spending, it will be done. Without that support, we have no reason to be as optimistic, especially as elections approach.

(2) Turning now to a second vital point, it is imperative that we settle upon a national energy policy. In the short run, it is especially critical that we reach agreement upon policies concerning oil and natural gas. In the long run -- and in this case, the long run means sooner rather than later -- we must also adopt more effective policies to encourage much greater development and use of our coal resources and of non-fossil fuels, as well as policies that will ensure significantly greater energy conservation.

Let me talk briefly about our views on the immediate questions of oil and natural gas. With regard to domestic oil prices, you will recall that the President early this year proposed a decontrol plan coupled with plans for tax rebates and a windfall profits tax. Together, these measures would have reduced consumption of oil, promoted greater domestic development, and would have also had only a minimal impact upon consumers and our chances of recovery. Then for months the Congress didled and dawdled. The President began seeking a compromise, meeting again and again with Congressional leaders, but still the Congress talked and talked but refused to act. Now we are in a situation in which decontrols have expired, the President has offered again to compromise, and the Congress still can't make up its collective mind what to do. Our position in the Administration is clear: the President is willing to accept the gradual decontrol of oil prices. We are also willing to go forward with a plan for more immediate decontrol and we believe this can be carried out without imposing a heavy burden upon the economic recovery that is underway. What we are not willing to do -- and I believe the American people feel the same way -- is to accept endless delays and debates. The time has long since come for concrete action.

Now with regard to natural gas, we face the possibility that if the winter is severe, a dozen or so of our Eastern states could suffer serious shortages, several other states -- including some represented here -- could also feel a pinch, and there might be layoffs in a number of industries that are heavily dependent on natural gas supplies. Unfortunately, this country has allowed the natural gas issue to drift so long that it will not be possible to eliminate all of the shortages this winter. But we can help to alleviate them, and toward that end the President last week sent to the Congress and emergency, four-part bill that would accomplish that purpose. One part of this bill would allow qualified interstate pipelines to purchase natural gas from intrastate sources at uncontrolled prices for a period of 180 days; another part of the bill would permit high-priority users to purchase their natural gas directly from intrastate sources at uncontrolled prices and then arrange for transportation through interstate pipelines. Both parts of the bill thus point up a conclusion that I have been advocating for as long as I have been in Washington: that the ultimate answer to the issue of natural gas lies in deregulation. As we proceed to consider the emergency natural gas legislation, I hope that no one will ignore the fact that we must also move toward permanent deregulation because that is the only ultimate solution.

(3) A third objective in the struggle to hold down inflationary pressures is to do all that we can to limit further price increases by the OPEC oil bloc. The prices they are charging now cannot be justified on either economic or financial grounds; they are politically determined and, truth to tell, they amount to political blackmail. As I have stressed on other occasions, I believe that another major increase in their prices this fall would seriously jeopardize the balance upon which worldwide recovery now depends. Three weeks ago, I had a chance to talk with the OPEC finance ministers, and I was encouraged by a sense of moderation and realism that most of them displayed. But the question of another increase is not yet resolved; until it is, the United States must leave no doubt about its views. And I can assure you that we aren't.

The problems of inflation, then, arise in many different ways -- in irresponsible government fiscal and monetary policies, in questions of domestic energy policy, and in international oil prices -- and we must work on all of these fronts at the same time. None of them can be ignored.

Still another immediate concern with regard to the prospects for recovery, and one that is related to inflation, has been the pattern of rising interest rates. More than six months ago, when we began warning that private borrowers might be crowded out of the capital market by the government devouring so much of the available funds, we were hotly roasted by many of the apologists for big government spending. Their models, they said, showed that interest rates would decline and private borrowers would be able to obtain ample funds. But the fact is that the "crowding out" that concerned us has already started. Furthermore, there has been an accentuation of the "flight to quality" that we have seen in the financial markets in the recent past. Funds are still available to high quality borrowers, but many lower quality borrowers are finding that they no longer have access to the market at prices they can afford. Looking down the road, a continuation of this trend would spell very serious trouble for the future growth of the economy. So it is imperative that the Federal Government exercise greater fiscal discipline, bringing inflation under control and wringing out the inflationary expectations that are so deeply ingrained in the American people.

A third area of immediate concern for all of us must be consumer confidence. While I do not place full faith and credit in the results of public polls, they do bear watching and recently they have shown a sag in public expectations. And it is clear that the recent decline has been directly related to the reappearance of inflation. I need not remind you that a precipitous drop in consumer confidence touched off by the wave of double-digit inflation, was a major element in bringing the last recession. It would be tragic to let that happen again. Instead, it is clear to me that we must follow the same policy prescriptions that I have suggested earlier: strong, steady policies that support the forces of recovery but carefully avoid the excesses that would rekindle inflation.

I could continue at some length on current problems and prospects, but let me turn for a moment to longer-range and even more fundamental concerns. As you can see, I have a high degree of confidence in the immediate future. The recovery is off to a solid start and, as I have said, it can be durable and lasting if we act prudently. I am, however, increasingly concerned by what may lie a few years beyond the horizon. Our economy cannot withstand a continual battering for the next five or ten years without suffering rather severe consequences; and let there be no doubt: serious damage to our economic system would most assuredly be a body blow to our political system as well.

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-- Our corporations, both financial and non-financial, cannot tolerate a prolonged period of inflation in the double-digit or high single-digit range;

-- They cannot create the 11 million new jobs we need before 1980 unless far more of our resources are pumped into new capital investments.

-- They cannot survive higher and higher degrees of illiquidity.

-- They cannot grow and prosper if there is a continual depression in profits.

-- They cannot operate efficiently and imaginatively if they are strangled by a growing web of government regulations -- regulations are especially vexing in the field of energy.

-- And they cannot survive the political pressures of a restive society unless they regain public esteem and attract many of the brightest and most able of our young people.

None of these trends will be easy to reverse. Their causes are deep-seated and have built up over a long period. The habit of excessive governmental spending, which lies at the root of so many of our difficulties, extends back for years: We have had 14 Federal deficits in the last 15 years, and 40 in the last 48 years. The sins of a decade or more will not be forgiven by a single day or even by a single year of penance.

The critical point is that we get started -- that we begin working to slow and then reverse the patterns. And we should be acting now, not two or three years hence when the problems could be significantly bigger and more difficult to master. If we wait too long, the solutions that will be forced upon us will make a mockery of the traditions that we hold dear in this country. The first rumblings for new wage and price controls can already be heard in Washington. Indeed, the wolf of Big Government is nearing our door, and it will not be driven off unless we act soon.

Late in July, I went before the House Ways and Means Committee to propose some rather fundamental changes in our tax code that would encourage a higher rate of capital formation -- or as the President aptly calls it, a new program of job formation. It was obvious that we would meet with stiff opposition both in the Congress and in the Press, and we knew the chances were slim that Chairman Ullman and his Committee would act on our proposal before the end of the year. But it was important, we thought, to generate a more serious public debate about capital formation and to begin laying the groundwork for the changes that are so clearly needed in the future.

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This is the posture that I believe must be taken by all of us here: To be forthright about the crucial choices that our nation must make and to be aggressive in pursuing our desired ends. There can be no question about how far this country has wandered from its moorings. Economic freedom is now on the line; political freedom is on the line; and personal freedom is on the line. And if people who believe in those freedoms aren't willing to stand up and fight for them, who will?

Ladies and gentlemen: I sincerely believe that we have reached a crossroads in our nation's history. For more than 40 years we have been gradually increasing the power of the central government in our daily lives. We have permitted the country to drift away from economic beliefs that were once considered fundamental in the United States: Notions that you must live within your means and that individual Americans acting within a free marketplace will in the end make better decisions and enjoy more satisfying lives than if those decisions are forfeited to the government. To me, it is clear that this drift is responsible for much of the inflation that we have suffered in recent years. It lies at the foundations of our recession. And it has helped to generate a crisis in energy; Today our free enterprise system -- the greatest engine for social progress that the world has ever known -- has slowed down perceptibly so that it is chugging along in second gear, far below its potential.

I believe that the time has now come to choose -- to choose between a continuation of the past decade, a trend that will eventually mean that our economic and political freedoms will be wrapped in a straitjacket and our economy will be run and managed out of Washington, or as an alternative, that we restore our basic freedoms as Americans, revitalize our private enterprise system, and reassert America's sense of destiny in the world.

This is the choice that we must make as a Nation in the coming year. This is the choice that will preserve or cripple our freedoms. This is the choice that will shape the lives of our children and our children's children.

I have always believed that every public official must take this as his highest goal: To turn over to our children a nation that is stronger and better -- that offers greater opportunities for personal and spiritual fulfillment -- than the nation we have inherited. I first came to Washington because -- as corny as it may seem -- I wanted to repay a small amount of what this country has given me. And I am proud to be there. But when I see the abuses that Washington has

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inflicted and is continuing to inflict upon private enterprise and upon our freedoms, I can only shudder about the world we are building for our children. I believe that the time has come for new directions -- to set the ship of state on a new course. And I believe the American people know this. There is no question in my mind that the people of this country want a fresh start, as the President has said. But I also believe that we will make the right choices about the future only if more of our citizens -- Americans of strength and character like those of you here tonight -- are willing to fight for their convictions. I urge you to stand up and be counted.

Thank you.

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FOR IMMEDIATE RELEASE

REMARKS BY
JAMES N. SITES
SPECIAL ASSISTANT TO SECRETARY OF THE TREASURY
BEFORE THE
MARYLAND-DELAWARE-D.C. PRESS ASSOCIATION
SHERATON-FONTAINEBLEAU HOTEL
6:00 P.M., EDT, FRIDAY, SEPTEMBER 19, 1975

Nearly a year ago, I packed my papers and moved one block from the National Press Building to Main Treasury to work with William E. Simon on communicating to the nation the basic facts on how America got into its awesome economic troubles, and what it would take to get out. I soon began to wonder how I got into such a jam!

After 24 years in Washington reporting and communications counseling, I thought I had a fair grasp of government processes. As someone said, I would be playing the same game in a different ballpark: But, no, I found that people kept throwing bottles from the bleachers! Including the press....

Even so, I have finally concluded that if people knew more, they would throw more.

The fact is that government is rapidly becoming the foremost factor in our lives. And if it does not function well, little else will.

So, tonight, I would like to talk about what I see as the nation's greatest challenge of the next decade -- and, for that matter, for the rest of our lives: This is bringing government's enormous expansion under control and making government work in the best interests of the nation. And because we at Treasury and the Economic Policy Board work daily with the economic problems that so intimately affect the state of the nation, I will concentrate on this area.

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Economics, as you know, has been called the dismal science. And looking at those Four Horsemen of the Economic Apocalypse -- inflation, unemployment, high interest rates and business turmoil -- you can understand why.

Reporting in this crucial area has also been called dismal. Yet, as economic issues have moved into Page One, I myself have observed an enormous improvement in this regard recently. There should be. For press coverage of economic developments directly affects policy debates in Washington and elsewhere -- and can lead, as well, to sensible resolution of that larger issue I mentioned of controlling Big Government.

This is the particular challenge before you who represent the nation's press, for it's your government no less than mine. I am reminded in this connection of the first use of that telling phrase, the Fourth Estate, as attributed to a speech in Commons by Edmund Burke, who said:

> "There are three estates in Parliament, but in the reporter's gallery yonder, there sits a Fourth Estate more important far than...all. It is not a figure of speech or witty saying; it is a literal fact, very momentous to us in these times."

On the economic-political front, America may well be in a race between knowledge and crisis, and the press will play a decisive role in determining the outcome.

I know I don't have to tell you that the nation has worked itself into a difficult economic situation today -- even though, fortunately, we have turned the corner and are seeing an encouraging improvement in production, sales and employment. The big problem is inflationary pressures. And if Washington fails to follow sensible fiscal and monetary policies now, it could readily aggravate these pressures and plunge the nation again into the same kind of boom-and-bust cycle we have just gone through.

I won't belabor the causes of double-digit inflation. Economists are generally in fair agreement on this point -- even though, as one wag put it, if you took all the economists in the world and laid them end-to-end, they wouldn't reach a conclusion!

People have been rocked in recent years by a quadrupling of prices by the oil-producing nations, by crop setbacks that triggered higher prices for farm products, by serious supply shortages in key industries which resulted from our recent

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bout with wage-price controls, by a simultaneous boom among industrialized countries that boosted world commodity prices and by two devaluations of the dollar that spurred increased foreign demand for U.S. goods.

Then, on top of all these economic factors have come subtle political pressures in the form of rising expectations of the world's peoples for a better life -- leading to almost unlimited demands being placed on limited resources.

Now, look at the role federal policies have played in this situation. To cite a few facts for background:

* Before the 1930s, government accounted for about 12 percent of our gross national output. Today, government at all levels accounts for a full third of output. And if present growth trends continue, this could top 50 percent by the year 2000.

* Nearly one out of every five members of the work force now works for government -- federal, state and local. In fact, the 15 million people on public payrolls make government the largest single employer in the United States.

* Only 14 years ago the federal budget first reached the $100-billion figure. Just four years ago, it topped the $200-billion mark. Then, last year it passed $300-billion. And this current year government is spending close to one billion dollars each day.

While the vast expansion of government functions represented by these spending totals is a problem in itself, even more serious is the chronic failure of government to make ends meet. In the past 15 years, the federal bureauracy has run up deficits in 14 years -- a miserable record of profligacy. These huge deficits, combined with expansive monetary policies, have added enormously to aggregate demand for goods and services and have thus generated heavy upward price pressures.

Moreover, as government moved into capital markets and preempted vast sums to cover its deficits, interest rates have climbed. This, in turn, has badly hurt home building, which depends on low-cost mortgage money, as well as business borrowing for expansion of plant and jobs and consumer credit for purchases of autos and other major appliances.

We've thus seen posed for Washington policy-makers the ultimate dilemma: You can no longer solve problems simply by throwing a lot of money at them. Now dawns the hard realization that the more money government spends, the more severe our economic troubles become. It's like trying to cure an alcoholic by plying him with manhattans.

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And speaking of manhattans, what clearer example could you find of the sad results of irresponsible spending policies than in New York City? Those who would cast stones at that city's misfortunes, however, should recognize that the Federal Government is making the same mistakes that brought on New York's crisis. The big difference is that Washington, unlike New York, controls the printing presses and can create new reams of inflated money to cover its deficits.

Is anyone any longer deceived by this kind of fiscal sleight of hand? I doubt it. People know full well that there's no such thing as free government programs, any more than there's such a thing as a free lunch. If we don't have the courage and will to pay for government programs in taxes, then we wind up paying in the cruelest and most regressive tax of all -- inflation.

As indicated earlier, politicians can hardly be held solely responsible for inflation. Business, labor, education, the professions all contribute their bit to the process.

And everyone would have to contribute his bit to the solution. Few objectives are more urgent.

It's been said that inflation is like a country where no one speaks the truth. The least able pay the bill for inflation, whether they're out of work, retired, disabled or dependent. For instance, at the 12 percent inflation rate of last year, a person retiring on an income of $500 a month would see his purchasing power cut in 10 years to a paltry $170. Even at today's 7 percent inflation rate, the check's value would be cut in 10 years nearly in half.

This is why President Ford and Treasury Secretary Simon and other Administration leaders have repeatedly emphasized that even while we do our utmost to get the economy moving and get people back to work, we must not give up our simultaneous battle against inflation as our most critical long-range threat. And I hope that you, the press, will not hesitate to tell that like it is -- that the path to economic trouble is paved with government deficit spending -- that more consume-now-pay-later short-cuts to satisfaction in Washington can only mean a short-cut to crisis.

Another critical area where you can help to better inform the nation lies in spelling out the real sources of jobs and high living standards. Expansion of productive plant and an increase in production efficiency is the only way to increase jobs, curb inflation, raise living standards and assure our ability to compete on world markets. And this can come about only through greater investment in expanded and

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modernized facilities. This is why Bill Simon stresses the need for tax changes and other policy approaches to shift the nation from overconsumption to increased savings and capital formation. We need to provide 3 million additional jobs right now to regain full employment -- then 2 million more a year until 1980 to take care of new workers coming into the labor force, then 1-1/2 million a year thereafter.

The private sector still provides over 80 percent of jobs in the nation, and badly needs help in generating profit and channeling a greater flow of funds into investment. Isn't this a better way to expand employment than through big new government spending programs?

As America celebrates its 200th birthday, we need to rededicate ourselves to the kind of self-reliance, self-help, and self-determination that sparked our nation's dynamic growth and development. If we really want to bring government expansion and irresponsible spending policies under control, we will have to stop demanding that government step in every time a new problem arises and "do something." People will have to get back to doing it themselves. Otherwise, the economy may find itself strangled by red tape and foundering in red ink.

Perhaps, beholding how efficiently government processes 43 million checks each month, we have become victims of overexpectations of what government is capable of doing in the more complex social areas. Take it from one who has seen the bureaucracy work at first hand, Big Government is simply not that effective, cannot be, and cannot be expected to be. It is no match for the ingenuity and dynamism of free people who are allowed to innovate, to work, to excel and to determine their own destiny.

The private enterprise system is unquestionably facing its most serious threat since the 1930s. Shocks of energy price increases and rampant inflation have shaken the entire world, produced widespread turbulence, and driven the desperate more and more to government for saving measures. Yet, if we ourselves succumb to this temptation, it will mean still more central controls over the functioning of our economy and still more government spending programs. And as these new government actions further foul up the workings of the private sector, demands will arise for still further government intervention.

Then, as government taxes more and more of a worker's income, at what point will he lose motivation to work and decide, instead, to become a non-contributing recipient of public aid?

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And at what point does business decide that with all the government controls over its operations and limitations on its ability to make a profit, it's just not worth the candle?

And at what point does government stifle innovation and wreck the dreams of those who would found the IBMs and Xeroxes, the great newspapers and broadcast stations, of tomorrow?

Indeed, looking at the natural propensity of politicians to vote new programs, and, in effect, to spend someone else's money, you wonder if the democratic system has built into it the seeds of its own self-destruction.

Well, this scenario does not have to happen. As we stand at this crossroads, let's ask pointedly whether that really is the direction we want America to travel. If we are to avoid a lemming-like march into the sea, people will have to start demanding -- and getting -- balanced budgets, a hold-down on new government regulation and the kind of tax policies that will encourage initiative and expansion.

An encouraging sign of hope in this respect came out of this week's Southern Governors Conference in Florida. There, 13 top state executives, expressing "unified and deep concern over the adverse economic impact of both the ever-growing size of the Federal Budget and this nation's chronic pattern of deficit spending," called for adoption of a constitutional amendment that would require the Federal Government to match revenues against outlays over a "multi-year period" that would allow for business-cycle downturns and national emergencies.

The road of renewed responsibility on economic policies can also lead to a badly needed renewal of people's confidence in their government. Poll after poll shows marked deterioration in the public's mood, loss of credibility in all our major institutions, and a longing by people for a return to integrity and responsibility. I would suggest that a great start in this direction lies in what Bill Simon has well said:

> "We must stop promising people more than we can deliver -- and we must deliver what we promise."

It is also clear that we cannot cure a decade of sins by one day's penance. Correction will take time and uncharacteristic patience. What the President has been trying to do this year in holding the lid on government spending needs to be continued for a long time. In fact, I could not imagine a healthier development for the nation's economy -- and for all the hopes that people place on the state of that economy.

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I would hope that you who influence so intimately the course of political action in America would dedicate yourselves to the resolution of this momentous challenge of reining in on runaway government. Our future depends on it....

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE DELAWARE BICENTENNIAL CELEBRATION
DOVER, DELAWARE, SEPTEMBER 20, 1975

GOVERNOR TRIBBITT, SENATORS ROTH AND BIDEN, MEMBERS OF CONGRESS, MAYOR CARROLL, DISTINGUISHED GUESTS, AND LADIES AND GENTLEMEN:

IT IS A HIGH PERSONAL HONOR FOR ME TO JOIN YOU AT THESE FESTIVITIES AND TO BRING YOU THE WARMEST GREETINGS OF THE PRESIDENT OF THE UNITED STATES.

THE NATION'S EYES TODAY ARE UPON DELAWARE. ACROSS THE LAND, THIS IS AFFECTIONATELY KNOWN AS "THE FIRST STATE" -- THE FIRST STATE IN THE UNION TO RATIFY THE CONSTITUTION, THE FIRST STATE WHERE THE AMERICAN FLAG WAS UNFURLED DURING A REVOLUTIONARY BATTLE, AND THE STATE WHOSE SOLDIERS WERE WIDELY THOUGHT TO BE FIRST AND FOREMOST AMONG THE COLONIAL REGIMENTS. OVER THE PAST SEVERAL YEARS, I MIGHT ADD, YOUR CONGRESSIONAL DELEGATION HAS ALSO BEEN AMONG THE FINEST IN

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WASHINGTON. SO IT IS CERTAINLY APPROPRIATE THAT TODAY DELAWARE ALSO BECOMES ONE OF THE FIRST STATES TO INAUGURATE THE NATION'S BICENTENNIAL CELEBRATION.

YOU WILL HEAR MUCH DURING THIS BICENTENNIAL YEAR ABOUT THE GRANDEUR OF AMERICA. THERE WILL BE COUNTLESS TALES OF THE WAY THAT SMALL, FLEDGING COMMUNITIES CARVED A HOME OUT OF THE WILDERNESS. YOU WILL HEAR AGAIN HOW A NEW NATION WAS FORGED IN THE FLAMES OF WAR, UNITING MEN AND WOMEN FROM MANY FOREIGN LANDS. FROM THAT EARLY MELTING POT -- THAT SPILLED ACROSS THE PRAIRIES AND WAS CONTINUALLY ENRICHED BY NEW WAVES OF IMMIGRANTS -- AROSE THE GIANT THAT WE KNOW TODAY: THE MIGHTIEST NATION ON EARTH, A NATION THAT HAS UNLOCKED THE SECRETS OF ABUNDANCE AND PLENTY, AND A NATION THAT HAS BEEN FAVORED BY THE BLESSINGS OF THE CREATOR.

THESE ARE THE FAMILIAR TALES OF OUR PAST AND THEY WILL BE RETOLD MANY TIMES IN STORY AND SONG. YET AS THE STORIES OF OUR GROWTH AND PROSPERITY ARE REMEMBERED, I WOULD HOPE THAT YET ANOTHER THEME WILL ALSO BE SOUNDED, FOR WITHOUT IT, AMERICA WOULD NOT BE THE LAND WE LOVE SO WELL. TO ME, THAT THEME IS THE CENTERPIECE OF OUR HISTORY, THE BRIGHTEST STAR IN OUR FIRMAMENT.

ALL OF YOU KNOW IT WELL, BUT IN TODAY'S WORLD, WE MUST CONTINUALLY REMIND OURSELVES OF ITS LIVING REALITY. THAT THEME IS SIMPLY THIS: OUR COVENANT AS A PEOPLE THAT IN THIS LAND, FREEDOM AND INDEPENDENCE SHALL REIGN. HERE, SIR, THE PEOPLE GOVERN. NO TYRANT, WHETHER HE SPRINGS FROM OUR OWN OR FOREIGN SOIL, SHALL RULE AMERICA. NO SYSTEM OF GOVERNMENT SHALL BE ALLOWED TO OPPRESS US AS A PEOPLE. TO US, GOVERNMENTS DERIVE THEIR JUST POWERS FROM THE CONSENT OF THE GOVERNED, AND WE INSIST THAT OUR GOVERNMENT BE OF THE PEOPLE, BY THE PEOPLE, AND FOR THE PEOPLE.

THESE ARE NOT MERE SLOGANS. THEY HAVE HAD A FLESH-AND-BLOOD MEANING FROM THE EARLIEST COLONIAL DAYS UNTIL NOW.

THINK BACK FOR A MOMENT TO THE THREE PATRIOTS FROM DELAWARE WHO SIGNED THE DECLARATION OF INDEPENDENCE IN 1776. EACH OF THEM KNEW THAT HE WOULD BE BRANDED AS A TRAITOR BY THE BRITISH AND THAT HE AND HIS FAMILY WOULD NO LONGER BE SAFE. THEIR LIVES SHOWED, AS DID THOSE OF THE OTHER MEN IN PHILADELPHIA, THAT SIGNING THE DECLARATION WAS NOT JUST AN ACT OF WISDOM; IT WAS ALSO AN ACT OF COURAGE.

THINK OF THOMAS MCKEAN (MC-KEEN) OF NEW CASTLE COUNTY, ONE OF THE EARLIEST BATTLERS FOR INDEPENDENCE. IN 1770, HE WROTE TO JOHN ADAMS THAT SINCE SIGNING THE DECLARATION, THREE YEARS EARLIER, HE HAD BEEN "HUNTED LIKE A FOX BY THE ENEMY." FIVE TIMES HE WAS COMPELLED TO MOVE HIS FAMILY TO PLACES OF GREATER SAFETY, UNTIL AT LAST THEY FOUND REFUGE IN A LITTLE LOG-HOUSE ON THE BANKS OF THE SUSQUEHANNA.

THINK OF GEORGE READ, THE FIRST ATTORNEY GENERAL OF THIS STATE, WHO WAS EVEN MORE ARDENTLY PURSUED AFTER HE SIGNED THE DECLARATION. ON ONE OCCASION, WHILE HE AND HIS FAMILY WERE CROSSING THE DELAWARE RIVER, THEIR SMALL BOAT WAS CAPTURED AND BOARDED BY THE BRITISH. ONLY BY ARTFULLY DECEIVING THE ROYAL NAVY THAT HE WAS A LOYALIST COUNTRY GENTLEMAN DID GEORGE READ ESCAPE.

OR THINK OF CAESAR RODNEY WHO LIVED ONLY TWO BLOCKS FROM HERE IN DOVER. HE BADLY NEEDED MEDICAL TREATMENT FROM ABROAD IF HE WERE TO HAVE ANY HOPE OF PROLONGING HIS LIFE, AND HE KNEW THAT TO VOTE FOR INDEPENDENCE WOULD CUT HIM OFF FROM DOCTORS IN THE BRITISH ISLES. BUT WHEN THE ISSUE OF FREEDOM WAS SQUARELY PRESENTED, CAESAR RODNEY MOUNTED HIS HORSE IN DOVER AND RODE ALL NIGHT TO PHILADELPHIA -- 80 MILES THROUGH A THUNDERSTORM -- SO THAT HE COULD JOIN IN DECLARING THE LIBERTY AND INDEPENDENCE OF THE COLONIES.

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To me, this is the spirit of '76 -- the spirit in which those early patriots, in the words of the Declaration, pledged to each other their lives, their fortunes, and their sacred honor.

In the halls of the White House today, only a few steps from the Oval Office, there hangs one of the most famous paintings of early America. It depicts the delegates of each colony working on the Declaration of Independence in July of 1776.

As people pass by that portrait today, one of the first things they notice is that many of the faces are blank and much of the picture is left unpainted. Why is it blank, they ask. Why is it unfinished?

One answer, I would suggest, is this: because the work of our founding fathers is unfinished. The job of preserving and extending our freedom must still go forward.

"THE AMERICAN WAR IS OVER," AS ONE COLONIALIST SAID AFTER THE BRITISH SURRENDERED, "BUT THIS IS FAR FROM BEING THE CASE WITH THE AMERICAN REVOLUTION. ... IT REMAINS YET TO ESTABLISH AND PERFECT NEW FORMS OF GOVERNMENT..."

LADIES AND GENTLEMEN, THAT REMAINS OUR FOREMOST TASK TODAY: TO CONTINUE THE WORK OF THE EARLY PATRIOTS, TO FORM A MORE PERFECT UNION SO THAT AS FREE AMERICANS WE MAY LIVE TOGETHER IN HAPPINESS AND IN PEACE.

THE HAPPINESS TO WHICH WE ASPIRE IS NOT OURS BY DIVINE RIGHT. JUST AS THE REVOLUTION DEMANDED SACRIFICE AND STRUGGLE, SO NOW MUST WE COMMIT OUR FULL ENERGIES AND ATTENTIONS TO BUILDING A BETTER AMERICA. OUR CHALLENGES TODAY ARE MORE COMPLEX, THEY ARE NOT AS CLEAR CUT, BUT THEY ARE EVERY BIT AS DEMANDING. WE MUST OVERCOME THE MANY FLAWS IN OUR SOCIAL STRUCTURE. WE MUST END A LONG PATTERN OF ABUSES OF OUR ECONOMIC SYSTEM, ABUSES WHICH HAVE GIVEN US

UNPARALLELED INFLATION AND THE MANY HUMAN HARDSHIPS THAT HAVE ACCOMPANIED OUR RECESSION. WE MUST PROVIDE EVERY INDIVIDUAL, REGARDLESS OF RACE OR SEX OR ETHNIC BACKGROUND, WITH AN EQUAL CHANCE AT THE STARTING LINE. AND WE MUST INSURE THAT AS WE GO ABOUT OUR WORK, WE DO NOT TRADE OUR HARD-EARNED PERSONAL FREEDOMS TO OUR GOVERNMENT IN EXCHANGE FOR ILLUSORY PROMISES OF GREATER SECURITY AND COMFORT.

AS ONE WHO HAS HAD THE PRIVILEGE OF WORKING IN OUR GREATEST FINANCIAL CENTER AS WELL AS IN THE CENTER OF OUR DEMOCRACY, I CANNOT EMPHASIZE TOO STRONGLY MY OWN BELIEF THAT PROSPERITY AND FREEDOM GO HAND-IN-HAND. WE CANNOT ENJOY THE FRUITS OF ONE WITHOUT MAINTAINING THE OTHER. SHOW ME A PEOPLE WHO HAVE FORFEITED THEIR ECONOMIC FREEDOMS, AND I SHALL SHOW YOU A PEOPLE WHO HAVE ALSO BEEN ENSLAVED BY THEIR RULERS.

FROM SOME OF THE MOST POWERFUL PEOPLE IN THE UNITED STATES TODAY YOU HEAR THAT OUR PROBLEMS CAN ONLY BE SOLVED

BY MASSIVE GOVERNMENTAL CONTROL OVER OUR LIVES. THE BELIEF THAT AMERICANS CAN AND SHOULD SOLVE MANY OF THEIR PROBLEMS FOR THEMSELVES -- AND THAT, INDEED, MOST AMERICANS PREFER TO LIVE THAT WAY -- IS DISMISSED AS WISHFUL THINKING, NOSTALGIC SENTIMENTALITY FOR A WAY OF LIFE THAT IS NO LONGER RELEVANT TO TODAY'S NEEDS.

I SAY TO YOU THAT THE SPIRIT OF FREEDOM IS THE MOST PRECIOUS PART OF OUR HERITAGE AND MUST BE PRESERVED ABOVE ALL ELSE. IT IS ONLY THROUGH A FREE SOCIETY THAT WE SHALL ALSO BE A PEACEFUL AND PROSPEROUS SOCIETY. THE MEN AND WOMEN OF THIS LAND STILL YEARN FOR THE LIBERTY -- AS WELL AS THE RESPONSIBILITY -- TO SHAPE THEIR OWN LIVES AND DESTINIES. THE TRUTHS BY WHICH OUR FOREFATHERS LIVED ARE AS VALID TODAY AS THEY WERE YESTERDAY; MASSIVE GOVERNMENTAL INTERVENTION IS NO MORE ACCEPTABLE NOW THAN IT WAS THEN.

IN THOSE EARLY YEARS, THE COLONIALISTS KNEW THAT IF THEIR ECONOMIC FREEDOMS WERE LOST, THEIR POLITICAL FREEDOMS

WOULD ALSO BE SMASHED. AND SO THEY REBELLED: AGAINST THE SUGAR ACT, THE STAMP ACT, THE TEA ACT, AND A HOST OF OTHER INFRINGEMENTS UPON THEIR ECONOMIC AND POLITICAL LIFE. AND IN THE DECLARATION OF INDEPENDENCE, THEY SPELLED OUT THEIR GRIEVANCES IN AN ELOQUENCE THAT SHOOK THE WORLD. THEY COULD NO LONGER TOLERATE, THEY SAID:

-- ACTIONS BY THEIR RULERS WHICH "ERECTED A MULTITUDE OF NEW OFFICES, AND SENT SWARMS OF OFFICERS TO HARASS OUR PEOPLE..."

-- ACTIONS BY THE CENTRAL GOVERNMENT TO IMPOSE BURDENSOME TAXES ON US "WITHOUT OUR CONSENT;"

-- AND ACTIONS THAT WERE "ALTERING FUNDAMENTALLY OUR FORMS OF GOVERNMENT..."

EACH OF THESE WERE AMONG THE LONG TRAIN OF "REPEATED INJURIES AND USURPATIONS" THAT THOMAS JEFFERSON ENUMERATED IN THE DECLARATION OF INDEPENDENCE.

YET, WHEN YOU THINK ABOUT THEM, HOW DIFFERENT ARE THEY FROM THE CONCERNS THAT WE HAVE TODAY WITH THE ARMY OF FEDERAL REGULATORS WHO HAVE GATHERED ALONG THE POTOMAC RIVER? DO CITIZENS TODAY NOT FEEL THAT THEY ARE BURDENED WITH A TAX SYSTEM OVER WHICH THEY HAVE LITTLE REAL CONTROL? DO THEY NOT FEEL THAT THE POWER AND AUTHORITY OF OUR STATES HAS WITHERED AS THE POWER OF OUR CENTRAL GOVERNMENT HAS INCREASED? AND ARE NOT OUR ECONOMIC HOPES AMONG THE FOREMOST CONCERNS OF OUR PEOPLE TODAY, JUST AS THEY WERE TWO HUNDRED YEARS AGO?

THE ANSWERS ARE CLEAR. AND EQUALLY CLEAR IS THE NEED OF PRESSING FORWARD IN THE SPIRIT OF '76 -- TO RESURRECT AND EXTEND THE BOUNDARIES OF LIBERTY, TO MAINTAIN EFFECTIVE INSTRUMENTS OF GOVERNMENT WHERE THEY ARE NEEDED BUT TO ALTER AND ABOLISH THEM WHERE THEY ARE NO LONGER NECESSARY OR WHERE THEY INTRUDE TOO DEEPLY INTO OUR CHERISHED PERSONAL FREEDOMS.

YOUR GOVERNMENT IN WASHINGTON TODAY IS MOST DISTRESSED BY THE CONDITIONS THAT NOW EXIST IN OUR ECONOMY. WE HAVE ACTED IN A WAY THAT WE THINK WILL BE EFFECTIVE TO REVIVE THE ECONOMY WITHOUT GENERATING ANOTHER RUINOUS WAVE OF INFLATION. WE SHALL CONTINUE TO ACT AS CONDITIONS WARRANT. WE SHALL CONTINUE TO BE GENEROUS TOWARD THOSE WHO ARE UNABLE TO DEFEND THEMSELVES AGAINST THE RAVAGES OF INFLATION AND RECESSION. BUT WE BELIEVE THAT IT IS RIGHT AND THAT IT IS WISE TO RESIST THE TEMPTATIONS TO INTERVENE MASSIVELY AS SOME URGE UPON US. TO INCREASE GOVERNMENT SPENDING DRAMATICALLY, TO FLOOD THE MARKETS WITH NEW CURRENCY, TO IMPOSE NEW WAGE AND PRICE CONTROLS, TO WRAP OUR ECONOMY IN A GOVERNMENTAL STRAIT-JACKET -- EACH OF THESE ACTIONS WOULD ULTIMATELY BURDEN YOU, THE AMRICAN PEOPLE, WITH FUTURE HARDSHIPS AND WOULD ROB YOU OF EVEN MORE OF YOUR FREEDOM. THIS WE MUST NOT AND SHALL NOT DO.

IF FREEDOM IS TO BE PRESERVED IN THIS NATION, THEN WE MUST ACT DECISIVELY TO MAINTAIN AND PROTECT IT. IT MUST NOT SLIP QUIETLY FROM OUR GRASP OR CONTINUALLY BE CHIPPED AWAY, BIT BY BIT, UNTIL OUR FOUNDATIONS COLLAPSE. AS JAMES MADISON TOLD THE VIRGINIA CONVENTION OF HIS DAY, "THERE ARE MORE INSTANCES OF THE ABRIDGMENT OF FREEDOM ... BY GRADUAL AND SILENT ENCROACHMENTS OF THOSE IN POWER THAN BY VIOLENT AND SUDDEN" ACTIONS OF THE GOVERNMENT. THAT IS THE DANGER IN WHICH WE STAND TODAY: THAT WE WILL BE MISLED ONCE AGAIN INTO BELIEVING WE CAN OBTAIN A SAFER AND MORE SECURE FUTURE BY SACRIFICING BITS AND PIECES OF OUR FREEDOM, THAT THE HERITAGE WON FOR US ON BATTLEFIELDS STRETCHING FROM BUNKER HILL TO HAMBURGER HILL AND SECURED FOR US BY GENERATIONS OF TOIL WILL NOW BE SOLD FOR A MESS OF POTAGE. IF WE SUCCUMB TO THAT TEMPTATION -- IF WE RETREAT DOWN THAT ROAD -- WE SHALL FIND AT THE END NEITHER COMFORT NOR FREEDOM; WE SHALL FIND ONLY THE END OF THE AMERICAN DREAM.

THAT NEED NOT BE THE CASE. THE DIE IS NOT YET CAST. BUT A TIME OF DECISION IS SURELY HERE. EACH OF US IS CALLED UPON TO CHOOSE THE ROAD INTO THE FUTURE.

TWO CENTURIES AGO, AFTER THE LONG AND ARDUOUS CONSTITUTIONAL CONVENTION HAD ENDED IN PHILADELPHIA, BENJAMIN FRANKLIN AROSE AND POINTED TO THE CHAIR WHERE GENERAL WASHINGTON HAD BEEN PRESIDING.

ON WASHINGTON'S CHAIR WAS THE DESIGN OF A SUN LOW ON THE HORIZON, AND MANY OF THE DELEGATES HAD WONDERED WHETHER IT WAS A RISING OR A SETTING SUN.

"WE KNOW NOW," FRANKLIN TOLD THE DELEGATES, "IT IS A RISING SUN AND THE BEGINNING OF A GREAT NEW DAY FOR AMERICA."

LET THIS BICENTENNIAL YEAR BE THE BEGINNING OF ANOTHER GREAT NEW DAY FOR AMERICA. LET THIS BIRTHDAY CELEBRATION BRING A RESURRECTION OF THE SPIRIT OF AMERICA. AND LET THE MOTTO THAT YOU HAVE

CHOSEN FOR THIS GREAT STATE OF DELAWARE -- "LIBERTY AND INDEPENDENCE" -- RING FORTH ONCE AGAIN ACROSS THE LAND.

THANK YOU AND GOD SPEED.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 22, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $ 2.7 billion of 13-week Treasury bills and for $2.8 billion of 26-week Treasury bills, both series to be issued on September 25, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing December 26, 1975			26-week bills maturing March 25, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.399	6.265%	6.47%	96.564 a/	6.796%	7.16%
Low	98.382	6.331%	6.54%	96.547	6.830%	7.19%
Average	98.386	6.316%	6.53%	96.550	6.824%	7.19%

a/ Excepting 1 tender of $595,000

Tenders at the low price for the 13-week bills were allotted 21%.
Tenders at the low price for the 26-week bills were allotted 76%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 52,825,000	$ 33,335,000	111,465,000	13,715,000
New York	3,733,490,000	2,181,480,000	4,494,400,000	2,506,860,000
Philadelphia	32,235,000	31,230,000	42,375,000	10,125,000
Cleveland	92,460,000	54,060,000	141,180,000	38,780,000
Richmond	45,140,000	30,560,000	50,295,000	15,515,000
Atlanta	53,225,000	36,735,000	38,935,000	20,935,000
Chicago	258,080,000	139,080,000	253,100,000	57,690,000
St. Louis	64,460,000	46,065,000	53,110,000	34,720,000
Minneapolis	34,820,000	14,475,000	54,095,000	7,095,000
Kansas City	30,985,000	30,485,000	29,970,000	22,970,000
Dallas	43,665,000	19,470,000	25,055,000	14,055,000
San Francisco	165,495,000	83,795,000	317,950,000	61,350,000
TOTALS	$4,606,880,000	$2,700,770,000 b/	$5,611,930,000	$2,803,810,000 c/

b/ Includes $458,800,000 noncompetitive tenders from the public.
c/ Includes $239,465,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

The Department of the TREASURY NEWS
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Contact: H.V. Hervey
x2256

FOR IMMEDIATE RELEASE September 22, 1975

TREASURY ANNOUNCES DETERMINATION
OF SALES AT NOT LESS THAN FAIR VALUE
ON RADIAL BALL BEARINGS, EXCLUDING THOSE WITH INTEGRAL
SHAFTS, WITH AN OUTER DIAMETER OF 9mm AND OVER
BUT NOT OVER 100mm, FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today a determination that radial ball bearings, excluding those with integral shafts, with an outer diameter of 9mm and over but not over 100mm, from Japan, are not being, nor are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of September 23, 1975.

A Notice of Tentative Negative Determination was published in the Federal Register of June 23, 1975.

Comparisons between purchase price or exporter's sales price and home market price revealed that purchase price or exporter's sales price was equal to or higher than the home market price of such or similar merchandise.

During calendar year 1974, imports of the subject merchandise from Japan were valued at approximately $74 million.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 4:00 P.M. September 23, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,100,000,000 , or thereabouts, to be issued October 2, 1975, as follows:

92-day bills (to maturity date) in the amount of $3,000,000,000, or thereabouts, representing an additional amount of bills dated July 3, 1975, and to mature January 2, 1976 (CUSIP No. 912793 YM2), originally issued in the amount of $2,701,100,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,100,000,000, or thereabouts, to be dated October 2, 1975, and to mature April 1, 1976 (CUSIP No. 912793 ZA7).

The bills will be issued for cash and in exchange for Treasury bills maturing October 2, 1975, outstanding in the amount of $5,401,380,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,763,205,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, September 29, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

(OVER)

securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on October 2, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 2, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR IMMEDIATE RELEASE
MEMORANDUM FOR CORRESPONDENTS: September 23, 1975

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Secretary of the Treasury William E. Simon announced today that an evaluation of the Secret Service protective intelligence function has been intensified as a result of the two recent alleged assassination attempts on the President. In this connection, an outside evaluation of protective intelligence procedures has been redirected toward these incidents.

He said that over the years since the Warren Commission first made its recommendations in 1964, the Treasury Department and the Secret Service have had numerous outside organizations (including psychiatric, criminal, behavioral psychologists and other specialists from the academic and Government community) review all aspects of the Secret Service protective function.

To give some perspective to the magnitude of the task facing the Secret Service, the Secretary noted that the Secret Service in a normal year screens 200,000 pieces of information regarding persons of possible protective interest; as a result of this input, it interviews 4,000 people in connection with its protective responsibilities; it arrests approximately 60 people as a result of distinct threats made against protected officials; identifies 275-300 people who merit special attention in connection with each trip of a protected official.

Secretary Simon noted that "in striving to perfect procedures, neither the Secret Service nor we at Treasury are ever satisfied with the job we are doing in this area, and this is particularly true when two back-to-back incidents like this occur. The public can be sure that the Secret Service will continue to operate in as effective a manner as is humanly possible in a free society."

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federal financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

FOR IMMEDIATE RELEASE September 24, 1975

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Summary of Lending Activity

September 1 - September 15, 1975

Federal Financing Bank lending activity for the period September 1 through September 15, 1975 was announced as follows by Roland H. Cook, Secretary:

The Bank made the following advances to borrowers guaranteed by the Department of Defense under the Foreign Military Sales Act:

Date	Borrower	Amount	Interest Rate	Maturity
9/2	Government of Brazil	$ 8,451,193	8.050%	3/15/84
9/3	Government of Greece	30,000,000	8.385%	7/ 1/85
9/5	Government of the Philippines	2,000,000	8.405%	12/31/81
9/15	Government of Brazil	1,258,132	8.050%	3/15/84
9/15	Government of Korea	7,596,614	8.675%	6/30/83

The FFB made the following loans to utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Interest Rate	Maturity
9/2	United Telephone Co. (Wisconsin)	$2,167,500	8.510%	12/31/09
9/2	St. Joseph Telephone & Telegraph Co. (Florida)	1,220,037	7.976%	9/ 3/77
9/2	Oglethorpe Electric Membership Ass'n (Georgia)	7,187,000	8.510%	12/31/09
9/5	Murraysville Telephone Co. (Pennsylvania)	891,935	8.568%	12/31/09
9/5	United Power Ass'n (Minnesota)	2,900,000	8.568%	12/31/09
9/8	Doniphan Telephone Co. (Arkansas)	432,668	8.622%	12/31/09

(Over)

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9/10	Colorado-Ute Electric Association	$2,800,000	8.132%	9/12/77
9/12	Tri-State Generation & Transmission Ass'n (Colorado)	2,469,000	8.544%	7/15/78

Interest payments are made quarterly on the above REA loans.

The US Railway Association made three drawings against its line of credit with the Bank:

Date	Amount	Interest Rate	Maturity
9/2	$25,000,000	6.671%	11/24/75
9/11	1,500,000	6.697%	11/24/75
9/15	4,500,000	6.744%	11/24/75

On September 2, the Student Loan Marketing Association borrowed $35 million from the FFB at an interest rate of 6.71%. The loan matures November 18, 1975.

The Export Import Bank borrowed $670 million from the FFB on September 2:

Amount	Interest Rate	Maturity
$170,000,000	8.320%	3/1/79
500,000,000	8.375%	9/1/79

On September 10, the General Services Administration borrowed $2,543,127.28 against its $107 million commitment with the Bank. The interest rate is 8.745%. The loan matures November 15, 2004.

On September 15, Amtrak, the National Railroad Passenger Corporation made a $20 million drawing against its line of credit which matures December 1, 1975. The interest rate is 6.792%.

On September 15, the Tennessee Valley Authority borrowed $30 million from the Bank at an interest rate of 6.785%. The loan matures December 31, 1975.

Federal Financing Bank loans outstanding on September 15, 1975 totalled $15 billion.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 24, 1975

RESULTS OF AUCTION OF 29-MONTH TREASURY NOTES

The Treasury has accepted $2.0 billion of the $3.9 billion of tenders received from the public for the 29-month notes, Series G-1978, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	8.05% 1/
Highest yield	8.13%
Average yield	8.10%

The interest rate on the notes will be 8%. At the 8% rate, the above yields result in the following prices:

Low-yield price	99.893
High-yield price	99.722
Average-yield price	99.786

The $2.0 billion of accepted tenders includes 75 % of the amount of notes bid for at the highest yield and $1.1 billion of noncompetitive tenders accepted at the average yield.

In addition, $0.1 billion of tenders were accepted at the average-yield price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

1/ Excepting 3 tenders totaling $295,000

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

FOR RELEASE UPON DELIVERY

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STATEMENT BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON INTERNATIONAL TRADE,
INVESTMENT AND MONETARY POLICY
OF THE
HOUSE COMMITTEE ON BANKING AND CURRENCY
WEDNESDAY, SEPTEMBER 24, 1975, AT 10:00 A.M.

Mr. Chairman and Members of the Subcommittee:

I am pleased to respond to the Chairman's request to discuss United States policy with respect to foreign investment and the Treasury Department's role in foreign investments in the United States. You have also asked me to discuss the proposed acquisition of Copperweld Corporation by the French enterprise, Societe Imetal.

Although it is inappropriate for me to discuss the merits of the proposed investment, in part because it is currently the subject of litigation in the courts, I am fully prepared to discuss, in accordance with the Chairman's request, how our investment policy in general relates to this case and the role that the Committee on Foreign Investment in the United States has played in connection with it.

WS-383

Traditional U.S. Policy

I think it would be useful to review briefly for you our traditional policy with respect to foreign investment here, so that you will have a fuller appreciation of the context within which the Administration has acted in this sphere.

U.S. policy with respect to international investment has generally been based on the premise that we should rely on the private market as the most efficient means to determine the allocation and use of capital in the international economy.

Accordingly, our basic policy toward foreign investment in the United States has reflected an "open door" approach. That is, we offer foreigners no special incentives to invest here and, with a few internationally recognized exceptions, have imposed no special barriers. Furthermore, foreign investors are generally treated equally with domestic investors once they are established here.

There are a number of important reasons for our maintaining an open policy toward foreign investment. First, foreign investment helps us to meet our large and rapidly growing capital needs. At a time when firms are facing difficult financing requirements, we believe it would not be wise to raise new restrictions on the available sources of capital. Our open policy towards capital flows is conducive to a healthy growing U.S. economy and in this respect is beneficial to domestic capital formation. Moreover, at a time when unprecedented budget deficits will place extraordinary demands on our capital markets, we should not close off those markets to willing investors from abroad.

Second, foreign-owned companies have yielded the U.S. economy the same benefits as their domestically-owned counterparts -- that is, employment opportunities, tax revenues, and competitively-priced goods and services. Some foreign investors have brought unique technology to this country, while others have played a major role in the development of particular states or regions, bringing more jobs and other important benefits to their economies.

Our experience has been that the behavior of these companies does not differ from that of domestically-owned firms. The ownership of these companies has not altered their willingness to abide by our laws, and they still must compete in our marketplace.

Third, as this Subcommittee is particularly aware, we are by far the largest foreign investor in the world. The book value of our direct investments overseas -- amounting to well over $100 billion -- is several times greater than foreign direct investment here. Furthermore, we now have treaties of friendship, commerce and navigation with many nations under which they have been promised that their investors -- with certain well-defined exceptions -- will be given equal treatment with American citizens with respect to investments within the United States. A consideration we constantly keep in mind is the necessity that we not endanger these important treaties, which provide parallel rights to U.S. investors in those countries.

Finally, we must always be aware of the responsibilities attached to the leadership role we play in the world's economy. If we were to abandon our historical support for freedom of movement for capital and adopt investment restrictions, other nations could be expected to follow suit and restrict U.S. investment to a much greater degree than they currently do. The need for worldwide cooperation is great at this time, and we must not risk leading the nations of the world to a retreat into economic isolation.

1975 Policy Review

Despite these considerations, many expressed concerns about the rapid growth in the hands of a few governments of funds available for investment abroad, and we, therefore, recently conducted a complete review of our investment policy and the effectiveness of our relevant laws and regulations. The review was completed in late winter and its results were presented to Congress in several hearings earlier this year.

Our basic conclusion was that the traditional U.S. open policy with respect to foreign investment in this country should be maintained. We have, therefore, opposed proposals for any new restrictions on foreign investment in this country.

Underlying our decision is the belief that our existing laws, regulations, and practices provide extensive information with respect to foreign investments as well as adequate safeguards to deal with potential problems that might arise in the case of particular investments. There is a formidable array of such laws, and I am sure that few people in this country really understand the extent of the protection they provide us against abuses by foreign investors.

There are, for example, a number of specific laws which prohibit or limit foreign investment in certain areas of our economy for reasons of national security or to protect an essential national interest. These sectors include atomic energy, domestic airlines, shipping, Federally-owned land, communications and media, and fishing.

Secondly, there are many laws which prevent abuses in specific sectors. Among the most important are those in the defense area. The Defense Department may deny security clearances required to do classified work for the government to any firm under "foreign ownership, control or influence." Foreign investment in defense production facilities, although not expressly prohibited, is severely limited by the prospect that such an acquisition could result in the firm's losing its classified government contracts. Exports of arms and of classified technology related to defense manufacture are also effectively controlled.

Finally, foreign investors are subject to the same laws and regulatory constraints American firms must observe. Many of these are quite familiar, but are not usually thought of as protections against abuse by foreign investors.

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-- Our antitrust laws prevent a foreign investor from monopolizing a specific sector, or engaging in various anti-competitive practices. They also prevent foreign investors acting singly or in a group from making a purchase of, or engaging in a merger or joint venture with, a U.S. firm if the result would be to substantially lessen competition or tend to create a monopoly.

-- Our export control authority provides protection against the export of any product or resource if our national security is threatened, if there is an excessive drain of scarce materials and a serious inflationary impact from foreign demand, or if controls are needed to further U.S. foreign policy. Special, more detailed, rules apply to exports of armaments and certain types of energy.

-- Our securities laws require disclosures of significant foreign ownership, prevent harmful activities with respect to tender offers and stock market price manipulation and generally preserve orderly markets.

-- Our labor laws require all firms operating in the United States to refrain from unfair labor practices and to assure all workers safe and healthful working conditions.

-- Finally the President has broad emergency powers, including (1) the Trading with the Enemy Act, which gives him the power during a war or national emergency to control completely any property in the U.S. in which any foreign country or national thereof has any interest; (2) condemnation power over any property within our jurisdiction; and, (3) priority performance powers which authorize the President to order the priority performance of defense related contracts, to allocate materials and facilities necessary for national defense, and to place priority orders for a particular product and to take possession of the facility if they are not fulfilled.

Despite these extensive safeguards, we did feel that certain new administrative actions to supplement our existing laws and regulations would be desirable. These included:

-- Creation of a new Office on Foreign Investment in the United States, in the Department of Commerce, to synthesize and analyze the data on foreign investment in the United States which is collected by various U.S. Government agencies. Although considerable data on foreign investment has been collected by individual agencies, until the creation of this office there was no central collection or dissemination point for analysis of individual investments.

-- Establishment of a new high-level Committee on Foreign Investment in the United States to monitor the impact of foreign investment in this country and to coordinate the formation of U.S. policy on such investment.

-- Arrangements with the foreign governments for advance consultation with the U.S. Government on their prospective major investments in the United States.

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Committee on Foreign Investment in the United States

During the past months, we have made significant progress in implementing these new arrangements. The Committee on Foreign Investment in the United States (the "Committee") was established on May 7, 1975 pursuant to Executive Order 11858. Under this Executive Order, the Committee has "primary continuing responsibility within the Executive Branch for monitoring the impact of foreign investment in the United States, both direct and portfolio, and for coordinating the implementation of the United States policy on such investment."

The membership of the Committee consists of representatives of Government departments and agencies which are generally concerned with foreign investment issues, including among others State, Commerce, Defense, and Treasury, whose representative serves as Chairman. Thus, the Treasury Department has responsibility for coordinating the activities of the Committee. The Committee also invites representatives of other agencies which have an interest in a particular issue under review to participate in its discussions of that issue.

Also as implementation of the Executive Order, the Commerce Department has established an Office of Foreign Investment in the United States to support the Committee's activity. The Office's responsibilities include developing a consistent and timely data collection and processing system on foreign investment activity in the United States; providing evaluations and reports concerning the impact of foreign investment to the Committee; and preparing reports for publication.

The Office has been preparing statistical and other analyses for the use of the Committee and is working intensively with a mangement consulting team and other government agencies to develop improvements in the existing system to secure more complete and timely data.

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Committee Review of Specific Investments

In addition to its overall policy responsibilities, the Committee is required to "review investments in the United States which, in the judgment of the Committee, might have major implications for the United States national interest." With respect to specific investment transactions, the Committee is primarily concerned with direct investment in the U.S. by foreign governments -- although the Committee may review those extraordinary private investments which may clearly adversely affect the national interest.

As part of our policy, we have asked all foreign governments contemplating significant foreign investment in this country to hold prior consultations with the United States. The Committee is to assist in these consultations.

We already have had clear indications that other countries recognize our legitimate interests with respect to investments in the U.S. by foreign governments. In fact, I have personally discussed this policy with the major potential government investors in the Middle East and found a broad acceptance of our desire for consultations as long as they are applied to all governments on a non-discriminatory basis; and, of course, they will be equitably applied. The experience we had with Iran in connection with its proposed investment in Pan Am and with Romania in connection with its proposed joint venture with Island Creek Coal Co. are good examples of how such procedures can work to the satisfaction of both governments.

I think the easiest way for me to explain how the Committee might review a major foreign government investment proposal would be to explain on a step-by-step basis the procedures we would follow on handling cases that come before us. Most commonly, Committee involvement in a particular case would be touched off by the receipt from a foreign government of notification of its intent to make an investment.

When we receive notification from a foreign government, the information supplied is analyzed initially by the staff of the Secretary of the Committee on Foreign Investment in the U.S. in the Treasury Department. The action taken will be determined in accordance with the facts in the case. The Committee could, for example, simply indicate that it had "no objection" to the investment. Alternatively, the Committee may decide to request consultations and to initiate a more extensive review procedure. This could range from asking the investor for one additional piece of information to undertaking lengthy consultations.

It is anticipated that only a few investments that come before the Committee will reach the stage in which extensive consultations would be required.

The Committee would handle <u>private investments</u> somewhat differently. The key difference is that we have not

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specifically requested that private investors enter into prior consultations on proposed investments. We would regard such a requirement as both unnecessary and inappropriate. In the event that a private investment which came to our attention could clearly have adverse implications for our national interest, the Committee would ask the parties involved to consult with it.

Potential Acquisition of Copperweld Corporation

We initially became aware of the proposed takeover of Copperweld Corporation by Societe Imetal through public reports of the French firm's tender offer. As the issues involved in the case became clearer, the new office at the Commerce Department kept abreast of the situation by establishing contacts within the other U.S. Government agencies involved in the case.

I was in touch with the French Ambassador and other officials here in Washington in order to clarify our policy with respect to foreign investment in the United States and to ascertain to what degree the French Government was involved in this investment. They advised me that there is no French Government involvement in the management of Societe Imetal.

The Committee became officially involved when it received a letter, dated September 10, 1975, from Mr. Phillip H. Smith, Chairman and President of Copperweld Corporation, concerning the proposed acquisition of his firm. Some days earlier, Under Secretary Yeo, the Chairman of the Committee, had notified its members that he had disqualified himself from participating in any consideration of any U.S. Government action concerning the proposed transaction because of his prior professional relationship and friendship with Mr. Smith. Consequently, on receipt of his letter, I assumed the post of Acting Chairman and determined that the Committee should review the issues Mr. Smith had raised. A meeting of the Committee was called for September 18th. In preparation for the meeting, the new Office of Foreign Investment in the United States, in the Commerce Department, investigated the background of the case, drawing upon resources within the Commerce Department and its contacts with officials of the Securities and Exchange Commission and the Justice Department. My staff and that of the office were also in contact with the Department of Defense, which was analyzing the possible defense implications of the transaction.

After full consideration of the facts, the Committee concluded that it had no basis for interposing itself in this transaction. This conclusion has been communicated to Mr. Smith.

Conclusion

The lessons we have drawn from our analysis of our experience with this case provide the answers to many of the questions you raised, Mr. Chairman, in your invitation to me to testify today.

First, the conclusion of our policy review that we should not require prior notification with respect to private investments continues to be sound. Both the new office at Commerce and our staff at the Treasury Department were closely following the developments with respect to Copperweld at an early stage, and we were able to act expeditiously on it once it was formally brought before us.

Second, none of the developments in this case indicate to us a need for additional legislation to safeguard the national interests in regard to foreign investments in this country. We continue to feel that our current safeguards against abuses of investment in this country, by domestic and foreign persons, are adequate and we see no reasons to depart from our traditional open policy.

During the past decade, foreign investors have become increasingly attracted to invest in the United States for a number of reasons: we offer a vast, affluent, and integrated market; we are rich in natural and human resources needed to service such investment; and there are intangible benefits, such as access to advanced technology, which result from participation in the U.S. market. However, the single most important factor has been that our markets have remained open and we have afforded domestic and foreign investors equal treatment. I believe it is essential that we protect our national interests, but this can be done without altering this basic underlying policy.

I hope that these remarks will be useful to your Committee, Mr. Chairman, and I will be happy to answer any further questions you may have.

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STATEMENT OF THE HONORABLE EDWARD C. SCHMULTS
UNDER SECRETARY OF THE TREASURY
BEFORE THE COMMUNITY AND GENERAL GOVERNMENT TASK FORCE
OF THE HOUSE BUDGET COMMITTEE
SEPTEMBER 24, 1975, 10:00 A.M. EDT

Madame Chairman and Members of the Task Force, I appreciate the opportunity to discuss with you today the Administration's views on the General Revenue Sharing program. I am especially hopeful that I can make some contribution to the successful operation of the new Congressional budget process. The success of your effort to establish overall national spending priorities is essential if we are to succeed in soon operating again under a balanced Federal budget.

Before proceeding to the substance of my remarks, I would like to explain my involvement in the Administration's effort to renew revenue sharing. To begin with, as Under Secretary of the Treasury, my office has supervisory responsibility for the Office of Revenue Sharing. Additionally, I had the pleasure to serve as chairman of the interagency steering group which last year reviewed how revenue sharing has worked and developed recommendations about the program's renewal for Secretary Simon to submit to the President.

On the whole, I think it is not difficult to justify the need for General Revenue Sharing, even as it competes for priority against numerous other Federal programs. Like any program, revenue sharing should be judged in terms of the goals which it was designed to accomplish. Any successful legislative proposal is likely to receive political support for varying, and sometimes contradictory, reasons. General Revenue Sharing is no exception. Nevertheless, I think we can identify at least three broad and mutually consistent roles which the Congress foresaw for General Revenue Sharing.

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Revenue sharing was enacted to help overcome certain imbalances within our Federal system of decentralized government, within the array of intergovernmental aid programs offered by the national government, and among the various State and local jurisdictions. The imbalance within the Federal system basically involved a lack of sufficient financial resources at State and local levels of government to perform those public functions which they could do best. This poor distribution of resources and authority among levels of government was not adequately addressed by then existing Federal assistance programs. Federal grants available to State and local jurisdictions predominantly involved programs heavily encumbered with national requirements and limited to very specific uses. Finally, the distribution of financial resources among States and localities did not always match the distribution of demands for services.

The imbalances which revenue sharing has sought to correct continue to merit attention. A vital federalism capable of guarding against the overcentralization of power and of providing responsive government in a large and diverse nation is as much a priority today as it was two hundred years ago. In an age when a large and distant Federal government must concentrate on foreign affairs, defense, and other national issues, there is a pressing need to make sure that governments close to our citizens have the fiscal strength to carry out those local tasks they can best accomplish. State and local governments possess a degree of awareness of citizen problems and a potential for citizen participation not ordinarily available at the Federal level. Additionally, general purpose -- as opposed to special district or limited function -- governmental units are headed by elected legislators and executives who must devise a coordinated approach to a wide variety of public responsibilities. Because of this breadth of responsibility and responsiveness, placing Federal funds in the hands of elected local officials through revenue sharing does make for efficient and honest use of these monies.

The second condition upon which the need for General Revenue Sharing was originally predicated was the fact that Federal assistance to governments was heavily weighted in the direction of categorical grants. While General Revenue Sharing and several new block grant programs have recently added greater flexibility in the total aid available, all levels of government still face the administrative burdens and inefficiencies associated with some types of categorical grants.

Just last month the General Accounting Office released a report entitled "Fundamental Changes in Federal Assistance to State and Local Governments" discussing the problems raised by providing grants with narrowly defined purposes and numerous restrictions. Difficulties noted include: inadequate information about programs for potential recipients; too complex application procedures; intricate administrative requirements; and obstacles presented to State and local planning.

Administration of these grants-in-aid is also very difficult for the Federal government to coordinate. What often results is a very fragmented and duplicative delivery system which directs funds in response to applications, rather than on the basis of need. Jurisdictions which are small and poor especially lack the resources to effectively deal with these informational and administrative demands. Program funds may also not be used in the most effective fashion since categorical grants tend to substitute Federal priorities for State and local knowledge about needs.

By no means do I intend to suggest that we do not need narrowly-defined intergovernmental aids in program areas where clearly identified national priorities exist. My point is that we also need the flexible general support assistance provided by General Revenue Sharing. We should not expect either mode of Federal assistance to accomplish purposes for which it was not intended.

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When Congress enacted the State and Local Fiscal Assistance Act in 1972, there was a desire on its part to effect a modest redistribution of resources among States and localities, in other words, to better make the financial resources of government match their needs to provide services. The Administration is of the opinion that the pattern by which revenue sharing has been distributed and the uses to which governments have put their funds have helped to provide a better match between need and fiscal ability.

Madame Chairman and Members of the Task Force, thus far I have quite simply been arguing that while revenue sharing has been a success, the conditions which the Congress originally intended that it address continue to exist. Consequently, the rationale for its original enactment is also applicable to its renewal. President Ford feels that this approach to Federal domestic assistance claims a top priority in competition with other important claims on our national tax dollars. This view is particularly forceful if one agrees that a strong Federal system, a balanced system of intergovernmental aid, and an effort to better relate need to capacity are national priorities.

Because General Revenue Sharing must compete with other claims on the Treasury in a time of large Federal deficit and continuing inflationary danger, the President has not proposed an expansion in the base funding level or the size of normal annual increases in the program. We are asking that the present approach of providing $150 million annual increments be continued. The total cost of the President's program over the 5-3/4-year renewal period proposed is $39.85 billion, compared to $30.2 billion for the present 5-year program. A $75 million funding bulge from the last months of the current program would be moved forward into the new program to continue to provide linear stair-step increases. Annual program costs at the end of the proposed extension period would be about $937 million more than at the beginning. In addition, a total of $27.5 million would be made available at the existing annual rate to provide price-adjustments to the allocations of the noncontiguous States, Alaska and Hawaii, when they qualify for this adjustment. While the total funding involved in the President's renewal package is quite large, the annual increase in funding level is only in the area of two percent, and this percentage declines as time passes. Of course, these annual add-ons only partially compensate for the impact of inflation at current rates. They are, however, the maximum that the Administration feels is justified in light of competing claims for the Federal tax dollar.

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I would now like to turn to a somewhat fuller explanation of why the Administration gives General Revenue Sharing such high marks on performance. As suggested earlier, a careful assessment of the program's performance and renewal options was made by a Treasury Department, Office of Management and Budget and Domestic Council Steering Group during the last half of 1974. The review effort culminated in some basic decisions by President Ford at the end of December.

As a part of our study, we familiarized ourselves with critiques of the program's operations and suggestions for change from Congress, the General Accounting Office, the Brookings Institution, the National Clearinghouse on Revenue Sharing, public interest groups representing governments and various social groups, and National Science Foundation research then available. We have continued to assess new information about revenue sharing that has appeared since our legislative proposal was drafted.

In addition to reliance on the sources mentioned above, we carried on our own examination of institutional arrangements, and statistical data relevant to the past operation of the program, as well as the probable impact of proposed alterations.

In settling upon recommendations for the President, we concentrated on alternative approaches to revenue sharing extension in the following issue areas:

- length and manner of funding

- the allocation formulas and associated procedures, such as the division of funds between States and localities and the constraints on local allocations

- non-discrimination

- restrictions on the use of funds

- public participation and publicity

- governmental reform

As is clear to everyone, there has been no lack of evaluation or shortage of recommendations about revenue sharing. The Administration has been receptive to changes in the authorizing legislation which offer strong hope of improving the program. We have not proposed major amendments for several reasons. We are committed to giving high priority to what we view are primary goals of revenue sharing -- strengthening the Federal system, improving the delivery of Federal assistance, and helping States and localities to meet serious needs. We feel that the existing program has done a very credible job of meeting these priorities. At the same time, we do not think that General Revenue Sharing can be designed to solve all the political and social problems of our society. To attempt to make it do so will reduce its contribution as flexible, unencumbered Federal assistance.

Let me discuss some of the things we do not think revenue sharing is suited to do. Shared revenues really have only limited ability to bring about governmental and tax reform in the jurisdictions where they are placed. Revenue sharing is not normally a large enough portion of the total resources of a recipient government to overcome political and legal resistance to such reforms. This explains the seemingly limited incentive provided for use of individual income taxes by the existing five-factor interstate formula. If we attempt to further tailor General Revenue Sharing to serve as an incentive for such reforms, we are most likely to destroy its flexibility. The same end is probable should we try to direct the benefits of shared funds onto selected social groups. Categorical or block grants are much more appropriate for this purpose as well as for encouraging structural or fiscal reforms.

Resources drawn from the relatively more efficient and equitable Federal tax system have been made available to States and localities through revenue sharing without the red tape associated with most other Federal assistance. From the Federal vantage point we have not seen the erection of a large and expensive bureaucracy to administer the program. Expenditures on its administration are around 0.12%, as compared to about 2% for general Federal aid to State and local units of government.

The existing revenue sharing allocation formulas have performed well in directing relatively more resources per capita into needier jurisdictions. There is a tendency on the part of some critics to overlook this very important broad success. It is not a simple matter to develop an allocation formula which performs as well as revenue sharing given the diversity of governmental and fiscal situations across this large Nation. It is by no means certain that the Congress could again successfully blend competing philosophical, geographical, and jurisdictional interests to achieve a formula as equitable and broadly acceptable as the existing one.

The Brookings Institution, the Advisory Commission on Intergovernmental Relations, and the General Accounting Office all report that poorer, as compared to richer, States receive generally greater revenue sharing allocations. For example, Brookings reports that for 1972, Mississippi received $39.90 per capita, as compared to $28.05 for California.

Hard-pressed center cities, according to ACIR and Brookings, also receive higher per capita allocations than do their wealthier suburbs. The higher costs of government in urban areas is taken account of by the existing allocation formulas in other ways too. Brookings data indicates that the most densely populated county areas, and county areas with over one million population, receive higher than average (as compared to other county areas) per capita amounts. In fact, during 1972, counties falling within standard metropolitan statistical areas received over 70 percent of local shared revenue.

A second way in which to assess revenue sharing's response to need is through the manner in which recipient governments utilize the funds they receive under the program. All who have attempted to analyze the fiscal impacts of shared funds have agreed that the degree of fungibility of this essentially "no strings" aid program makes this a most difficult task. At the same time, one should bear in mind that monies from <u>all</u> Federal assistance programs to some degree release State and local resources for other uses that are difficult to identify.

Various methodologies have been utilized to identify the uses to which shared funds are put. Office of Revenue Sharing Use Reports depend on reports from recipient governments. Interviews with officials, examinations of budget documents, and the tracing of trends in expenditures have variously been utilized by GAO, Brookings, and the NSF-sponsored studies. It has proven easier to identify broad fiscal impacts -- such as use for new capital spending, operational expenditures, or tax reduction -- than specific functional use. There does not, however, seem to be much doubt that allocations have been widely used to maintain existing vital services, to make possible needed capital expenditures, and to lessen the burden of State and local taxation.

These broad impacts of revenue sharing clearly result in benefits to all citizens. Yet, some commentators have felt that General Revenue Sharing plays too small a role in solving

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the numerous social problems of our Nation and directs too little money to meeting the needs of the poor, aged, and minorities. Again, I must point out that other programs are targeted onto these important issues. Revenue sharing seeks primarily to respond to the institutional needs of our Federal system and the governments which are within that system. We as individuals all benefit from the greater effectiveness of our governments.

Madame Chairman, the Administration has little doubt that revenue sharing also has more direct impact in solving social problems than is evident at first glance. Some of the ways it does so are:

- It frees up local resources for social expenditure.
- Education is the main use reported by States.
- Capital expenditures are often for schools, hospitals, low cost housing, etc.
- Funds reported as spent in functional categories other than for the poor and aged often can be of benefit to the underprivileged -- e.g. health, transportation, law enforcement, environmental, and recreational expenditures.
- Some jurisdictions have used allocations to redress past discrimination.
- Revenue sharing shifts the financing of activities away from relatively more regressive State and local taxes to the relatively more progressive Federal income tax.
- As recipients become more certain about the program's future and perhaps more financially pressed, they are spending more money on recurring program costs than on capital expenditures.

The funding levels for revenue sharing proposed in H.R. 6558 represent a compromise between the national necessity to keep down Federal budgetary deficits, the need to adequately fund competing priorities and the real fiscal needs of States and communities. Similarly, the manner of funding we are recommending balances the need for Congress and the President to control and regularly review expenditures against the very real need which States and localities have for the certainty and predictability of Federal support.

We are proposing to continue the present approach to the funding of General Revenue Sharing by providing a 5-3/4-year authorization and appropriation. The 3/4-year is included so that the program conforms to the new Federal fiscal year. We would also have the Secretary of the Treasury report recommendations on further extension of the Act by September 30, 1980, two years before the renewed program's termination. This would assure that Congress has enough time to carefully consider further extension and thereby also assist State and local budgetary planning.

H.R. 6558 would take advantage of exemption available to General Revenue Sharing from subsections 401(a) and (b), of the Congressional Budget Act of 1974. Exemption is specifically permitted from that statute if provided for by Congress in legislation to renew the program. There are other programs in addition to revenue sharing where Congress has recognized the requirements of State and local budgetary planning by granting advanced spending authority. We have rejected proposals for a longer or permanent appropriation, possibly tied to the Federal income tax base or the Consumer Price Index. These approaches offer inadequate opportunity for review and control.

We applaud the efforts that Congress has recently made to strengthen its budgetary process. These improvements should increase the predictability of much of the Federal funding going to State and local activities by providing more timely appropriations, as well as appropriations that are in line with authorizations.

At the same time, we feel that adequate planning for wise use of shared funds requires sufficient advanced knowledge of funding levels by recipient governments. Clearly, annual appropriations for revenue sharing would not provide such. When the Joint Committee on Congressional Operations considered changing the Federal fiscal year in 1971, it heard extensive testimony about the difficulties faced by State and local governments if they were not well advised as to how much Federal assistance would be available to them in the immediate future.

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Ineffective and hasty planning, expensive construction delays, and delays in important people-oriented services all result from such uncertainty. These developments can mean that citizens receive less than maximum benefit from revenue sharing dollars. The capital projects on which small governments spend considerable portions of their shared revenues require especially long lead times.

An important reality of State and local budgeting that further increases the need to know how much Federal funding will be available is the fact that most State and local executives must present a balanced budget to their legislative bodies. Officials are aided by the fact that borrowing is normally counted on the receipt side of these budgets. However, the flexibility of non-Federal governments to borrow and tax to meet short-term deficits varies and, on the whole, is more restricted than that of the Federal Government.

Many of these problems are immediate in that States and localities are currently beginning to put together budgets for fiscal year 1977. Revenue sharing funds for only one-half of that fiscal period are provided for by the existing State and Local Fiscal Assistance Act. The fiscal years of forty-six States begin on July 1, and agencies must normally submit their requests to their State budget office by at least October 15 of the prior year. Thus, in a matter of weeks most State budget offices will begin to evaluate agency requests for fiscal year 1977 and weigh them against possible revenues.

At the local level, fiscal years and budgetary cycles vary considerably by State and often vary within States. The Census of Governments reports that most county, municipal, and township fiscal years begin on July 1 or January 1. In larger units of local government particularly, budgetary cycles extend over a nine-month period, just as they do at the State level. As a result, fiscal year 1977 budget planning will often begin this fall at the local government level, too.

So, as you can see, it is extremely important to both States and local governments that Congress act upon the renewal of the State and Local Fiscal Assistance Act as soon as possible.

Before concluding my testimony, Madame Chairman and Members of the Task Force, I would like to briefly summarize the content of H.R. 6558. The bill proposes renewal of revenue sharing in its current general outlines. It seeks change only where it is really justifiable without threatening the disruption of a broadly successful program.

I have already described our approach to the funding of the renewal program, which essentially would continue current arrangements. H.R. 6558 also does not change the basic allocation formulas, which we think perform reasonably well, especially given the difficulties of constructing formulas for nationwide application. The bill only alters the manner in which funds are distributed in one major way. It would raise the local 145 percent per capita limitation of average statewide entitlements to 175 percent in five steps. This would allow the intrastate formula to allocate funds in line with its standards of need more freely. Some needy governments, in a number of cases large cities, would benefit from this amendment. Since the change would be phased-in through five steps, other jurisdictions would be protected from serious losses by the annual increments to the total funding of the program.

While the Administration's legislation does not propose to remove any important national standards for using shared revenues, it does seek to increase the program's flexibility of use and administration. Flexibility is clearly at the core of the GRS approach to Federal assistance. The Secretary of the Treasury would be given the discretion to make reporting and publication requirements governing use of funds more useful to local citizens and the Federal Government and less burdensome on those who must provide the information.

Those requirements relating to nondiscriminatory use of funds and public participation in State and local decision making about use of GRS funds are essential and reflective of the program's original philosophy. We have sought to clarify and strengthen these provisions in the new legislation. H.R. 6558 expressly defines the remedies available to the Secretary of the Treasury in seeking civil rights compliance. The legislation seeks to provide citizens full opportunity to influence choices affecting the use of shared funds. It requires recipient governments to give assurance to the Secretary of the Treasury that notice and opportunity

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for citizen participation in decisions to use funds is provided through a public hearing or by other means. Since most States and communities already have such procedures, this amendment would not place additional burdens on very many recipients. Further, it is broad enough to permit each jurisdiction to utilize procedures which best fit its needs.

In summary, Madame Chairman and Members of the Task Force, I have sought to explain how revenue sharing contributes to a vital Federal system, provides a more balanced and effective array of Federal intergovernmental assistance, and successfully responds to pressing governmental and human needs in our States and localities. We hope that you will agree with our assessment and that Congress, for the reasons we have cited, will see fit to extend the program as proposed in H.R. 6558.

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FOR RELEASE ON DELIVERY, WEDNESDAY,
SEPTEMBER 24, 1975, 10:00 AM

STATEMENT OF THE HONORABLE DAVID R. MACDONALD
ASSISTANT SECRETARY OF THE TREASURY
(ENFORCEMENT, OPERATIONS, AND TARIFF AFFAIRS)
BEFORE THE
SUBCOMMITTEE ON CRIME
OF THE COMMITTEE ON THE JUDICIARY
UNITED STATES HOUSE OF REPRESENTATIVES
WEDNESDAY, SEPTEMBER 24, 1975

Mr. Chairman, it is always a pleasure to appear before this Subcommittee to continue a dialogue that has ranged from the philosophy of statutory enactment as a means of effecting moral change, to the size of ATF's budget. I understand that today's testimony is to be closer to the latter than the former.

I do think it appropriate, however, to classify one ambiguity contained in the letter from the Subcommittee inviting me to testify. In your letter, Mr. Chairman, it is stated:

> "[W]e agreed to examine further your contention at that time that the Bureau of Alcohol, Tobacco and Firearms in general has been adequately funded in recent years for the fulfillment of its various statutory responsibilities."

Actually, I did not defend ATF's budget as such. The issue that gave rise to this hearing, as I understand it, arose out of a discussion at my last testimony on July 24, 1975, which went as follows:

> "Mr. Macdonald. . . . I would be interested in going over seriatim those areas in which you feel that ATF has not done a job under the 1968 Gun Control Act with

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its limitations, which we are trying to correct by this proposed legislation.

"Mr. Conyers. I think that is a great idea and I accept it.

Thus, I look forward to discussing those areas of ATF's operations 1) which reflect a substantial failure to carry out and enforce the Gun Control Act of 1968 as intended by Congress, and 2) as to which corrective measures have not been addressed in the President's Crime Message, delivered to Congress on June 19, 1975, and introduced as H. R. 9022.

You were kind enough to supply me with extracts of testimony from several Regional Offices of ATF. These statements, almost to a man, complain about lack of funds. I must say that, although I do not agree with all of the factual conclusions reached by these officials, I would have been disappointed had they not shown their dissatisfaction with their own performance and eagerness to obtain every last dollar they could squeeze out of the budgetary process in order to attempt to do a better job.

I think everyone at Treasury and ATF (and I know this is true of Director Davis) realizes that ATF (like any other agency charged with enforcing a criminal statute) must always strive to improve its enforcement of the Gun Control Act of 1968.

Analysis of the statements extracted by Subcommittee staff, however, indicate that ATF officials, when they testified before the Subcommittee, made the following points relating to resources

1) ATF has insufficient manpower to make the number of firearms dealer inspections which should be made. This is by far the most common complaint.

2) Limited manpower has forced ATF to concentrate on the more serious violations and persons who pose the most serious threat to public safety in the "significant criminal program."

3) When explosives violations are made a first priority, as in the Western Region, manpower is necessarily diverted from pursuing firearms violations.

4) ATF, at least in the Midwest Region, feels it has insufficient funds for undercover purchase of evidence.

5) ATF can handle only so many gun traces and, therefore, does not advertise its tracer service.

6) ATF, at least in the North Atlantic Region, needs more automobiles.

7) ATF needs a greater computer capability.

As to the problem of dealer inspection, the Administration has addressed itself to this problem with legislative recommendations, contained in H. R. 9022, which I outlined in my testimony before the Subcommittee on July 24, 1975. Our proposals are aimed at improving the effectiveness of the Gun Control Act by instituting a number of comprehensive revisions. One such revision will effect a reduction in the number of dealers so that they can be regulated more closely. Then, rather than increase the number of ATF inspections, we propose to reduce the number of dealers to those responsible dealers who are actually engaged full-time in the firearms business.

Thus, we proposed amending the existing licensing standards by including a provision which would permit the Treasury to inquire into each applicant's business experience, financial standing, and trade connections in order to determine whether the applicant is likely to commence the proposed business within a reasonable period of time and maintain such business in conformity with Federal, State and relevant local law.

Secondly, we propose to amend the Act to create special license categories for ammunition dealers, gunsmiths and dealers in long guns only.

It is true with ATF, as with every other enforcement agency, that manpower limits cause the agency to concentrate on the most serious violations and violators. The investigative programs of all Federal investigative agencies must be carefully planned to make the best use of limited manpower. Moreover, this is precisely what the President and Congress intended in connection with the Gun Control Act of 1968. The Johnson Administration originally proposed the legislation that became the Gun Control Act of 1968. In his message, the President explicitly stated that the legislation was not intended to curtail sporting or self-protection firearms, nor was it intended to take the place of action appropriately reserved for State action. Rather, it was intended to assist States by providing better controls over interstate and foreign commerce, leaving the issue of bans, registration, etc., to the states.

The Midwest Region feels it has insufficient funds for the undercover purchase of evidence. I am sure you appreciate that every Federal investigative agency which develops criminal cases through the use of this investigative technique would want to make as many cases as possible. Therefore, it is logical for the agency to feel that no matter how much money it has, it could still use more and develop additional prosecutions. However, as you know, there has to be a limit somewhere. This is similar to the amount of funds available to pay informants. The more money you have, the more information you may get but the supply of money can never be limitless.

Providing ATF with additional manpower would not necessarily increase its ability to trace weapons. The limitations attached to ATF's tracing capabilities are due to clerical problems at the manufacturer's level. The manufacturer must make a manual search of his records of the dealer who took delivery from the manufacturer. To improve this process would require manufacturers and all other licensees to forward records to a central location for computerization. Neither Congress nor the Administration has supported such registration to this point. In fact, Mr. Chairman, our guidance from Congress, particularly in annual appropriations hearings, has led us to the measured expansion and reallocation of forces.

Analysis of ATF's manpower applications since 1968 shows a steady and strong emphasis on firearms enforcement. From FY '68 to FY '76, the allocation of agent manpower to firearms enforcement has been shifted from 21% of the total agent manpower available to 77%.

In terms of ATF budget requests and Treasury and OMB allowances, there have been some overall reductions over the years, but it is clear that the increases for firearms and explosives enforcement have been substantial, from $1.3 million (approximated) to $71.5 million (approximated) per year during the FY '70 to FY '76 period. More recently, as a percentage of the total ATF budget, firearms and explosives enforcement has increased from about 33% (FY '70) to 63% (FY '76) of the total budget.

In a management sense, an agency cannot absorb, train and utilize a huge influx of money or manpower; such expansion should be measured and programmed. As the Regional Director, Mr. Morrissey pointed out at your hearings, his staff could not handle a major increment, in his example, doubling the staff, because there would be no means to adequately train the new agents over a short period of time.

Concerning ATF's regulatory efforts, it is true that ATF has not recommended the promulgation of every conceivable regulation which may have been possible under the Gun Control Act of 1968 in an effort to reduce the number of guns in the hands of United States citizens with a view to reducing violent crime thereby. In evaluating ATF's performance in this regard, we should bear in mind the intent of Congress in enacting the Gun Control Act. Congress was careful to state that:

". . .it is not the purpose of this title to place any undue or unnecessary Federal restrictions or burdens on law-abiding citizens with respect to the acquisition, possession, or use of firearms appropriate to the purpose of hunting, trapshooting, target shooting, personal protection, or any other lawful activity, and that this title is not intended to discourage or eliminate the private ownership or use of firearms by law-abiding citizens for lawful purposes, or provide for the imposition by Federal regulations of any procedures or requirements other than those reasonably necessary to implement and effectuate the provisions of this title."

The Bureau of Alcohol, Tobacco and Firearms currently does not have general purpose computers of its own. It obtains its computer support from outside the Bureau primarily through the use of other Treasury computers.

The Bureau accesses the Treasury Enforcement Communications System (TECS), operated by the U. S. Customs Service, through teletype terminals in its headquarters, regional and district offices. The use of this system is limited to specific law enforcement activities including inquiries and response to the TECS data base and use of the TECS network for distribution of messages from ATF headquarters to its agents in the field, for access to the National Crime Information Center (NCIC) of the Federal Bureau of Investigation and to access State and local police offices through the National Law Enforcement Telecommunications System (NLETS).

The Bureau uses the Internal Revenue Service's Data Center at Detroit, Michigan for automated payroll/personnel services, for operation of a criminal and regulatory case history information system and for miscellaneous one-time projects. Access to this facility is by mail. The design and development is done by IRS personnel.

The Departmental computer in the Office of Computer Science in the Office of the Secretary is being used for the development of regulatory and criminal enforcement systems such as the Firearms License Master File system and the Firearms Trace History System. All the applications on this computer are in the early stages of development and only limited production work has been done to date in the primary form of listing of initial data on the test files. This computer is accessed through a remote job entry terminal located in the Bureau's headquarters.

The Bureau does have a small computer in its laboratory which is dedicated to data reduction and chemical analysis.

The Bureau has a limited staff of four (4) professional computer specialists. This staff, in addition to working on new applications, is developing a five-year plan which includes obtaining the Bureau's own computer facility. In the interim, the Bureau plans on continuing its use of the Treasury facilities listed above, the Bureau of the Mint's computer at San Francisco or commercial sources as appropriate.

The testimony of the Acting Regional Director in the North Atlantic Region contains remarks about lack of equipment. He stated, "We have got three of our agents riding in one car, riding the bus or subway." At the time he appeared, the North Atlantic Region had 191 vehicles assigned and, by Goodwin's own testimony, 181 agents. Therefore, the ratio of vehicles to agents works out to more than one car per agent, especially since the figure of 181 agents includes supervisors and analysts who, although they are Special Agents, do not need cars to perform their usual daily duties. A shortage of cars cannot, therefore, be a reason for not utilizing manpower in the North Atlantic Region.

GSA Guidelines require that Government agencies should retain vehicles until they reach six years of age or are driven 60,000 miles, whichever comes first. The standards established by GSA are guidelines for cost effectiveness and safety. Generally, because of limitations imposed by Congress, agencies are not able to replace automobiles as often as they would like. For example, in Fiscal Year 1976, 494 Secret Service vehicles were eligible for replacement but the Service was only permitted to replace 77, leaving 417 in service which qualified for replacement under GSA standards.

In summary, Mr. Chairman, a review of the reports of our House Appropriations Subcommittee would appear to reflect general satisfaction with the funding level of ATF. Both ATF and the Treasury would like to operate on unlimited funds. A balanced view of the situation against the backdrop of the legislative history of the Gun Control Act of 1968, however, leads us to believe that the Congressionally approved budget limitations set in the years since the passage of that Act, even in hindsight, have shown a reasonable mixture of support for ATF with fiscal restraint.

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE JOINT ECONOMIC COMMITTEE
WEDNESDAY, SEPTEMBER 24, 1975, 11:00 A.M.

NEW YORK CITY'S FINANCIAL SITUATION

Mr. Chairman and Members of this Distinguished Committee:

I am here today at the express invitation of the Chairman, who has called upon me to testify about the possible impact of a financial default by New York City.

This is an occasion that none of us can welcome. All of us share the hope that a default can be avoided. Personally, I am confident that if the proper steps are taken, default will be avoided. One of the great pleasures in my life was to spend some 20 years working in the financial community in downtown Manhattan. I gained from that experience not only a love for the City but also enormous respect for the wisdom and strength of its people. I sincerely believe that if those great resources are properly marshaled, New York City will emerge from its current difficulties.

As your invitation to me recognizes, however, it is also important that we seek to understand what the implications would be if default does occur. I am sure that the Members of this Committee, as well as the American people, want this inquiry to be as honest and objective as possible. This cannot be a time when we delude ourselves with excessive optimism and thus fail to act wisely. By the same token, we should not engage in excessive pessimism. Impassioned statements that a default would have catastrophic consequences for the financial markets as well as the economy -- statements which have no foundation in observable facts -- can only make the situation worse. This is a time, then, for an honest appraisal, devoid of emotionalism or partisanship. My testimony today is offered in that spirit.

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I have appeared before this Committee many times to discuss economic and financial issues. I have enjoyed our dialogues and I recognize their value in exposing your colleagues in the Congress and the nation as a whole to a wide range of views on the issues which confront us.

Our job today is not a pleasant one. This Committee has an obligation to inquire into the major economic matters which face the nation and I have a corresponding obligation to present the Administration's views: responsively, accurately and fairly. And neither of us meets these obligations unless we deal with all sides of the issues: the unlikely as well as the likely, the worst case as well as the best.

Moreover, these obligations extend beyond evaluation. To the extent we identify the potential for harm in a default, we must implement measures designed to minimize harm in the event default occurs. Properly designed, such measures should not enhance the possiblity that default will occur. Nor should they reflect a judgment that a default will necessarily occur. They simply involve the Government carrying out one of its most important roles: protecting its citizens.

It is for these reasons that we have carefully evaluated the potential impact of default. Because default has two aspects -- the objective and the psychological -- any evaluation of the impact must involve highly subjective judgments. Absolute certainty is simply not possible.

With these considerations in mind, let me outline the substance of my remarks today.

First, although the challenges and the task are great, New York City, with the assistance of the State, has both the mechanisms and the resources to avoid default.

Second, if default were to occur, the event would be primarily legal in nature: the political and social infrastructure of the City would remain intact.

Third, while a default could adversely affect the capital markets, the effect in my judgment would be tolerable and temporary.

Fourth, a default would cause little, if any, damage to our financial structure: the banking system would remain intact, no bank customers would lose their deposits, and the system would continue to be able to provide credit to all levels of the economy, including consumers.

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Finally, the costs and risks associated with any program to provide special federal financial assistance to prevent default substantially outweigh the benefits which prevention would provide.

The Administration Program

At the President's request, I have put together an informal inter-agency task-force, chaired by my Under Secretary Edwin H. Yeo III, to deal with every aspect of a potential default by New York City. The evaluations and the plans outlined in my testimony today are the result of these efforts. We did not, however, feel that it would serve anyone's interests to publicize the activities of this group until this time.

Working through this group, and with the cooperation of other agencies of government, we have developed a program designed specifically to minimize harm in the event of a default. Particular aspects of the program are described in detail throughout my testimony, but let me summarize it now.

-- To complement action by the State Legislature, we have prepared, and will shortly submit to the Congress, legislation amending Chapter 9 of the Federal Bankruptcy Act to facilitate use of the protections of that Act by New York City. In addition, we are also studying the feasibility of a Chapter 11 type reorganization procedure as an alternative mechanism.

-- We will continue to provide for the flow of Federal assistance payments to New York City.

-- To protect the banking system and thus assure the continued availability of resources that system provides to consumers, corporations and governments, the FDIC will, in appropriate cases, provide capital to institutions where such action is necessary to maintain solvency. Moreover, as Chairman Burns reported to this Committee earlier this month: "the Federal Reserve will act promptly to relieve liquidity strains on the banking system, whatever the cause of those strains may be."

Let me repeat, default can be avoided. But it is our responsibility -- to the Congress and to the nation -- to design programs for any eventuality.

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Current Status

Let us now consider the current efforts of New York City and New York State to prevent a default.

On September 9, a special session of the New York State Legislature enacted legislation calling for:

-- Creation of a State dominated Emergency Financial Control Board to assume plenary control over the City's finances;

-- Authority to issue $750 million in short term State notes, the proceeds to be used to purchase MAC bonds;

-- A mandate to State and City employee pension plans to purchase $750 million in MAC bonds (and relief for the State Comptroller with respect to his fiduciary responsibilities regarding these plans);

-- An increase in MAC's borrowing authority from $3 billion to $5 billion; and,

-- Authorization for the City to file a petition in bankruptcy under Chapter 9 of the Federal Bankruptcy Act.

Two days later, New York State sold $755 million of short term notes, including $250 million earmarked for the City. MAC is beginning to raise from other sources the $800 million necessary to complete the $2.3 billion package which is required to finance the City through December 1.

At the City level, meanwhile, Mayor Beame has appointed a top financial executive to serve as the chief financial officer of New York City and to develop, by mid-October, an expense reduction plan to return the City to a sound fiscal basis.

These laudable efforts reflect a renewed sense of dedication to attack the causes of the problems I discussed with Congressman Rosenthal's subcommittee last June. Will these measures work? Can the City do enough between now and December to restore investor confidence? Some have answered in the negative, but I cannot agree. I would be less than candid with this Committee if I suggested the task will be easy. I would be less than candid if I failed to say that more in the way of immediate actions -- immediate expense reductions -- is required now than would have been required at some earlier time. But it would be equally untruthful to suggest that the job cannot be done. Appropriate mechanisms are now in place. It is essential that they be used promptly and well.

Impact of a Default

Necessary Concepts

To set the framework for my analysis of the impact of default, it is important to define some relevant terms and concepts. I sense that the dialogue concerning the issue has been hampered by confusion over the meaning and import of certain key words. First, there is "insolvency" which, simply stated, means that a person or a city has current obligations which exceed its available funds. "Default" is a technical legal term describing a debtor's refusal or inability to pay a creditor who has demanded payment. "Bankruptcy" describes a legal proceeding -- provided for in the Constitution -- under which an insolvent party in default turns over to a court the job of deciding how his financial resources will be apportioned among creditors.

In looking at default and bankruptcy, we should also draw a distinction between the options available in the event of a corporate default and those available with respect to a municipal default. If a corporation defaults and is subsequently brought under the jurisdiction of a federal bankruptcy court, one option -- albeit often not the most desirable one -- is liquidation: the sale of assets to satisfy the claims of creditors and the subsequent disappearance of the corporation as a continuing entity. Both common sense and Constitutional principles preclude such an option with respect to municipal defaults.

In this respect, a default by a state or local government is closely analogous to a default by an individual person. In either case, if a bankruptcy proceeding ensues, resources essential to the maintenance of life in the one case and essential services in the other, are protected from the demands of creditors.

It is important to re-emphasize this point: If New York City defaulted, it would continue to exist and to operate. Tax payments, Federal and State assistance payments and other sources of revenue would continue to flow. Schools and hospitals would remain open; police, fire and sanitation services would be provided and paid for.

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In short, it is essential not to confuse the legal and idiomatic meanings of the term bankruptcy. In common parlance, we may use bankruptcy to define a condition devoid of substance or resources. By that definition, New York has not been, is not now, and will not be bankrupt. If New York City does default, however, to deal with its creditors in an orderly way, a proceeding under the Federal bankruptcy laws is the most appropriate solution.

As I have often said, no observer who is asked to predict the impact of a default can do so with absolute certitude. A default -- like any major financial reversal -- has two aspects: a tangible, objective aspect on the one hand and a psychological aspect on the other. It would be inadequate to limit the analysis to only one of these aspects. And confusing the two would further cloud our evaluation of the impact of default. Indeed, I sense that such confusion is in large part responsible for some of the more extreme predictions which have been made in recent weeks.

Moreover, as I cautioned in my letter of last week, it is important to be sensitive to the risk that the evaluation process itself may aggravate reaction to a default. Let us suppose, for example, that leaders of major financial institutions contend that their institutions and the markets in which they function would be devastated by a default. Objective factors notwithstanding, such contentions would measurably enhance the impact of default.

Let me turn to a sector-by-sector analysis.

Essential Services

If New York City defaulted on an obligation to redeem a maturing note issue for cash, a question of immediate importance is whether the City could continue to provide essential services: police and fire protection, sanitation, mass transit, water and sewerage facilities, and the like. We evaluated the outlays required to provide these services against the City's level of receipts. While, as I have indicated on earlier occasions, levels of outlay for these services are extreme in relation to the outlays of other cities, New York City's revenues appear sufficient to provide an adequate level of services in the event of default.

Federal Assistance Programs

Another potential concern relates to continuation of the various Federal Assistance programs which benefit the citizens of New York. The Office of Management and Budget and the Domestic Council have completed a survey of the most important of these programs with the objective of identifying the potential consequences on scheduled assistance flows in the event local mechanism temporarily become unavailable. As the Committee knows, certain assistance to the City and its citizens depends upon local matching funds. The great bulk of this assistance is matched by the State of New York. However, under State law, the City is required to provide some share of the State portion. In our view, and under current Federal law, the State is responsible to make the matching payments if the flow of Federal assistance is to continue.

Speaking more broadly, programs of assistance to the disadvantaged are fundamental in a compassionate democratic society. But if such programs lose the support of the American people -- if they are perceived as too often providing the wrong benefits to the wrong recipients -- our ability to provide any assistance of this nature will be limited.

For these reasons, the President has asked Vice President Rockefeller, as Chairman of the Domestic Council, to conduct a thorough re-evaluation of all Federal assistance programs and to develop proposals for reform. While that review is not yet complete, my views are well known. I personally have long favored a simple program of income maintenance as the most efficient approach to our responsibilities in this area.

Debt Adjustment

The requirement that the City continue to provide and finance essential services underscores the importance of insuring that there is an orderly mechanism for allocating the City's financial resources and effecting a restructuring of the short term debt. Absent such a mechanism, there is the risk of a multitude of lawsuits, each seeking a legal injunction against the payment of City funds to one class of creditor or another.

It is for this reason that we have prepared, and will submit shortly to Congress, legislation amending Chapter 9 of the Federal Bankruptcy Act. This legislation is designed to insure that the claims of all legitimate creditors would be dealt with in a single proceeding. It would be complementary to the legislation enacted by the New York State Legislature authorizing New York City, in the event of default, to seek reorganization of its debt under the plenary jurisdiction of a federal court.

Specifically, our proposal would modify existing law by eliminating the existing requirement that a city must file a reorganization plan and written assents to the plan from 51% of the creditors before obtaining the protection of a Federal bankruptcy court. Under the revised procedure, Federal protection would be provided upon the filing only of a simple petition by the City. As is the case with respect to other types of reorganizations under our bankruptcy laws, the reorganization plan and the creditors' assent thereto would be developed in the course of the proceeding. In the interim, however, the City would be protected from conflicting claims and injunctions regarding its resources, and could continue to conduct its affairs in an orderly manner.

I would point out that this proposal is substantially consistent with the recommendations of the National Commission on the Reform of the Bankruptcy Laws, embodied in S. 235.

Financial Markets

In assessing the impact of a default on the financial markets, we are dealing in the realm of judgment; as I have said, absolute certainty is simply not possible. My analysis is based on a detailed review of all the factual circumstances, discussions with a wide range of market professionals in the private sector, and my own conclusions, based on more than twenty years of experience in the investment banking business.

The impact of a default on markets other than the municipal market is, in the final analysis, closely related to the impact on the overall economy. As I shall discuss more fully in a few moments, it is our judgment that a default would not damage the prospects for the Nation's economic recovery. The public understands that New York City's problems are unique in most important respects. Moreover, over the past six months and in the months to come, the public has had, and will have, ample opportunity to decide whether a default by New York City is merely representative of a more fundamental flaw in our economy. Only if such a conclusion were reached -- and there is no objective reason why it should be -- could we expect a serious and lasting adverse impact on these markets.

Municipal Bond Market

Our conclusions with respect to the municipal bond market are at once more precise and more complex. Over at least the past year, the municipal market has been unsettled due to a variety of complex factors.

First, the enormous volume of tax-exempt securities coming to market -- more than $51 billion of bond and notes in 1974 and more than $40 billion in the first eight months of this year alone -- has not been matched by a corresponding increase in demand for such securities. Second, inflation and now its inevitable handmaiden -- the anticipation of future inflation -- caused by massive Federal demands on the market has dampened investor interest in committing funds for the long term. Finally, a series of events -- the repeal of the Port Authority covenant by the legislatures of New York and New Jersey; the default by UDC, occasioned by the New York State Legislature's initial refusal to carry out its "moral obligation;" and the problems of New York City itself -- have all sharpened investor awareness of risk and created an element of doubt about the willingness of public bodies to carry out their financial obligations.

To a significant extent, these doubts have already led to some adjustments in the market. In the event of default, we would expect only a temporary period of moderate adjustment. And over a slightly longer time frame, we can see some potentially favorable signs. We understand that numerous intermediaries and investors are currently withholding funds from the municipal market because of the current uncertainties. When the New York City situation is resolved -- one way or another -- we can expect a substantial return of funds to the market, improving liquidity and lowering borrowing costs.

But the implications of default are broader than short range fund flows or price adjustments. Since at least the beginning of this decade, there has been a marked increase in the tendency of investors to restrict themselves to higher-grade instruments -- or a "flight to quality" to use the terminology of the market. Inflation and its by-products is the primary cause, but there is little question that major financial reversals -- the penn central bankruptcy, for example -- have served as important catalysts.

Clearly, New York City's situation has caused this trend to accelerate. Issuers whose obligations are viewed as less than prime are paying high rates of interest relative to the general structure of interest rates. Conversely, well-run issuers are benefitting in the form of lower rates.

In short, when we move away from this period of uncertainty, underlying credit characteristics -- financial soundness -- will be the dominant factor in the pricing of all municipal debt. The result will be a better and more efficient municipal bond market.

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At the same time, we cannot ignore the way in which the municipal market has performed even under these seriously unsettled conditions. During August alone, four states and 255 municipalities raised nearly $2.6 billion in long term debt. And contrary to widely held opinion, such funds were raised at a cost not grossly disproportionate to historical levels.

Traditionally, there has been a 30% spread between tax-exempt and taxable issues of comparable quality. When we hear complaints about the record rates municipalities are paying for funds, we must keep in mind that conditions in the corporate market are no better. This month, the spread between long term prime municipals and comparable utility issues was squarely on the 30% figure.

This is not to suggest that the municipal market has not been impacted by the uncertainty surrounding New York City's condition. But it does place the reaction of the market in a more accurate perspective than some of the rhetoric of recent months.

Finally, the disruptions which have occurred in the market place can provide an impetus for some very important reforms. One reason our capital markets are the finest in the world is that, under our laws and procedures, investors are provided with detailed and accurate information concerning potential investments. To the extent investors begin to receive such information from tax-exempt issuers, the market will clearly benefit.

New York State and Its Agencies

We have taken a particularly careful look at the credits within New York State to determine whether any credit would be able to withstand an increased level of scrutiny. We now believe there is little risk that a default by New York City would directly precipitate a default by New York State or its agencies.

Impact on the Banking System

As the Committee is aware, the Treasury Department, in conjunction with the Comptroller of the Currency, the Federal Reserve Board and the FDIC, has taken a close look at the holdings of New York City securities in our banking system. While significant amounts of New York City's debt is held by commercial banks, we do not believe a default would have a material impact on the banking system.

Specifically, our analysis revealed that only an infinitesimal number of the nation's 14,000 commercial banks could face serious capital impairment if New York City defaulted. Moreover, all of the nation's larger banks would be secure in the event of default.

But as is the case in other areas, we have felt an obligation to develop mechanisms to minimize all risks, however small. Accordingly, with respect to any bank which may be impacted, various mechanisms are now available to insure that none will fail as a result of a decline in the value of their holdings of New York City obligations. Bank customers have no need to fear for their funds.

1. Where possible, bank directors will be required to contribute additional capital.

2. Certain banks may be sold to, or merged with, other banks or bank holding companies.

3. As a last resort, in appropriate cases, the FDIC may provide capital in the form of convertible subordinated debt, at the same time imposing appropriate sanctions on the bank officials directly and indirectly responsible for the bank's exposure.

In addition, in recognition of the likelihood that any default could be cured promptly, the bank regulatory agencies have agreed that in the event of default, no bank will be required to write its holdings to market for six months.

Overall Economic Impact

As I suggested earlier, we cannot conclude that a default by New York City would result in a broad-based decline in consumer or investor confidence or in the adoption of unnecessarily restrictive lending policies by financial institutions. The American people know the reasons New York City is having financial difficulties and they know that there is little, if any, direct relationship between these difficulties and the condition of the national economy.

New York City is facing a possible default because for years it has spent far more than it takes in. New York City is facing a possible default because, until recently, it has not shown itself willing to implement the necessary reform measures required to restore confidence and regain access to the capital markets. No change in the national economic picture will measurably improve conditions in New York. And by the same token, no change in New York's condition will materially influence the economy as a whole.

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Federal Financial Assistance

The only event which could modify this conclusion would be the provision of Federal financial assistance to avert a default. Indeed, such assistance -- be it in the form of a guarantee or a loan, insurance or a grant -- would, in my view, cause many problems for the process of recovery.

As the chief financial officer of this great country I have a responsibility to all the people, not simply to particular groups or sectors at particular times. My job, in essence, is to protect and restore the eroding fiscal and financial integrity of the United States for the benefit of every citizen. To state my views on special financial assistance for New York City most directly: I would be ignoring this fundamental responsibility if I were to support such assistance.

For years, government at all levels has been promising more than it can deliver. This is the cause of New York City's problem and, in my view, it is the cause of our severe problems at the Federal level as well. More and larger deficits and the increased level of Federal borrowing required to finance these deficits have combined to threaten our economic system with fundamental change: No longer can we be confident that our private sector will have access to the capital required if it is to meet the needs of all our citizens. Yet some would have us accelerate these changes to deal with the consequences of fiscal irresponsibility at the local level.

Any form of financial assistance would directly increase the burden the Federal Government imposes on the capital markets. Who would suffer? All borrowers, including every other state and local government, would pay higher interest rates. And certain sectors -- housing, small and medium-sized companies, for example -- could discover that funds were not available at any price.

Moreover, we do not escape these problems by making the assistance slightly less direct; by providing a guarantee or insurance for municipal debt. Indeed, such a program would create a security superior to those of the Federal Government itself: Backed by the full faith and credit of the United States and exempt from Federal taxes. The impact on any municipal issuer which did not have a guarantee would be direct and severe: The guaranteed bonds would skim the cream of the market and all other issuers would pay higher rates.

And what would such a program do to fiscal policies at the local level? Today, the desire to maintain access to credit at the lowest possible rate is the most important incentive for fiscal restraint. A Federal guarantee program would provide all participants with the credit of the United States: This critical restraint on spending would be lost entirely.

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But, some will ask, why not have the Federal Government impose these restraints as a condition for the guarantee? That possibility concerns me more than any other because it would amount to no less than a Federal takeover of the fiscal and financial decision-making process at the State and local level.

We would have to create a new bureaucracy, simply to concoct and enforce the guidelines as to local priorities we here in Washington would be imposing on the Governments of the nation. We would be confronted with the sorry spectacle of duly-elected local officials lining up outside my door, attempting to persuade me that they were carrying out their responsibilities in a satisfactory fashion. We would, in short, be contravening constitutionally - imposed principles of Federalism; principles which lie at the heart of the structure of government in this nation.

Thousands, perhaps tens of thousands, of governments would resist this intrusion into local affairs. And they would be absolutely right. But in the final analysis, theirs would be a Hobson's Choice: Submit to Federal control or pay the price of independence in the bond markets. Are we really prepared to inflict this choice on the nation?

Finally, there are those who say that New York City is a special case; that helping New York will not obligate us to help other cities in the future. But we are already obligated. We are obligated to local officials throughout the country who have risked their careers by insisting on fiscal restraint. Would financing the deficits of New York City be consistent with our obligation to them? And can we really draw the line at New York City? I doubt it. Assistance to one city would create an intolerable precedent for the future.

Before concluding, I must return once again to an important point. As strong as our economy and our financial system may be, it remains somewhat vulnerable to attacks from within. We in the Administration have done all we can to evaluate the risks a default presents and, where possible, to provide mechanisms to minimize those risks. But if I may borrow a thought from Justice Holmes, the most elaborate fire protection system in the world may not protect theatergoers from the man who cries "fire."

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Mr. Chairman, fiscal restraint is not an easy task for any economic unit in our society -- a person, a corporation, a partnership, a city. I do not want to deviate from the subject at hand, but I must point out that even we as a nation are not immune. Only our printing press allows us a greater opportunity for postponement, while we daily risk mortgaging away the financial health and prosperity of future generations.

But our economy -- however weakened by excesses at the Federal level -- remains able to withstand even the most severe shocks. I do not wish a default upon New York City. I do not believe it has to default and I expect it to take the measures necessary to avoid such an event. But if it does default, the economy of this nation and its financial system will survive, with enough strength not only to repair the damage, but also to start our greatest city along the road to recovery.

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE ECONOMIC CLUB OF NEW YORK
SEPTEMBER 23, 1975

I want to thank each of you for your kind invitation to speak here tonight. I have been looking forward to this occasion for some time because I could think of no better forum to discuss a matter of growing concern to many of us in this chamber: the long-term prospects for the nation's financial system.

As you know, there is an old adage on Wall Street that "the markets are always telling you something." Our financial markets and institutions are a vital part of our economic system, and as such, they generally reflect the basic health of the economy: if the economy is fundamentally sound and moving ahead well, the financial structure should signal that. If, however, there are underlying imbalances in the economy, the system will also reflect that. The signs given out by the markets on any single day or week may be confusing or contradictory, but if there are pronounced trends over a long period of time, you can ignore them only at your own peril.

Litany of Troubles

Looking back upon the behavior of our financial system over the past several years, it is apparent that all is not well. The litany of troubles which have developed should give pause to even the most sanguine observer:

* With the economic recovery still in its early stages, interest rates are now at levels which 10 years ago would have been considered extremely unlikely.

* Access to the bond markets today for all practical purposes is limited to only top-rated companies. With few exceptions, a company with less than a prime rating can no longer tap the long-term public debt market as a source of long-term funds. Marginal companies, new growth companies, or even solid companies with less than an A-rating -- and in this broad group may be the Xeroxes and IBMs of tomorrow -- have almost been totally shut out from the long-term sector.

* Lenders are increasingly reluctant to make long-term commitments and borrowers too are reluctant to take on very long-term, high cost debt. Many more new securities today are of intermediate duration (7-10 years) rather than 25 or 30 years duration, which was the rule not long ago.

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* Too many companies are dependent now on short-term borrowing for what amounts to long-term expansion needs.

* At a time when over half of the securities listed on the New York Stock Exchange are currently selling below book value, the stock market is far from being the source of new equity capital required for long-term needs.

* The level of corporate debt has increased significantly over the past decade which together with the sharp rise in average yields has added significantly to interest costs. Debt relative to equity has nearly doubled. As a consequence, some business firms now run a significantly greater risk. For the highly leverage business, even a modest-sized contraction would make it difficult to meet fixed charges and in some instances might lead to bankruptcy because interest commitments are fixed and must be met no matter what the economic circumstances.

* The consumer has also an increasingly larger debt burden, which has in some cases reduced his ability to cope with periods of economic slowdown.

* Whole industries such as the airlines and utilities are faced with serious financial problems.

* Many state and local subdivisions are under increasing financial pressure.

* The loan-deposit ratio and the equity base of some commercial banks has deteriorated.

* And the thrift institutions, which 10 years ago were paying finders fees just to have the chance to invest in 5-1/2% mortgages, are now worrying about maintaining their deposits, although new home mortgage rates are running close to 10%.

I do not mean to cast a pall of gloom over our future economic hopes. The economic recovery that began earlier this year promises to be vigorous and healthy. If we choose our policies wisely, the recovery will also be durable and lasting. Moreover, I think we should be strongly encouraged by how well the financial system has functioned during one of the most difficult periods in modern economic history. That performance reflects not only the basic strengths and resiliency of our financial system but is also a tribute to the remarkable men and women who have become the leaders of our financial community. Many of you in this chamber tonight should be decorated for your wisdom and courage under fire.

Nonetheless, the markets are indeed "telling us something" today -- they are telling us that the underlying foundations of our economy are not as strong as they should be, that our financial system is more vulnerable than it should be, and that we ought to waste no time in putting our economic house in order.

These are the concerns that are the center of our discussions within the Economic Policy Board of the Administration. We believe that with the process of recovery solidly underway, the time has come to mount a full-scale attack on the underlying causes of our economic malaise. We are advancing a broad-guaged program to achieve that end. But we need your help and the help of many other Americans if we are to succeed.

There can be no doubt that the political opposition will be stiff and powerful against many of the measures that must be taken. A surprising number of people are not yet persuaded that the battle against inflation can be won only if we have sound fiscal and monetary policies. They do not yet understand that capital formation means job formation, higher real earnings, lower costs for consumers, and better economic growth. And in some quarters, mention of corporate profits, capitalism, and even free enterprise can bring almost a visceral negative reaction.

What then must be done? All of us must obtain a better understanding of the causes of our problems and how they affect our economy. All of us must obtain a clearer understanding of the solutions to these problems. And then we must carry forth a message that is clear and unmistakable. It is my sincere hope that my appearance here tonight will contribute to that process.

Origins of the Financial Stress

The underlying causes of our economic troubles are many and complex. A complete analysis must await the time and insight of future historians. Nonetheless, it is not too early to identify some of the more obvious reasons for our current difficulties. It is now clear, for instance, that inflation is our most fundamental economic problem, for it was inflation that was the basic cause of the recession and a prolonged resurgence of double-digit inflation would choke off the recovery. Furthermore, inflation has played a major role in weakening our financial structure, raising interest rates and causing a pattern of underinvesting within the economy.

Beyond recognizing the importance of inflation, we also have a fairly clear understanding, I would suggest, of the forces lying behind it. Our inflation and its impact on financial markets did not just happen but were the natural and largely predictable result of a series of occurrences which for the most part could have been avoided.

First, our Federal government has been living beyond its means for far too long. In fiscal year 1962 the Federal budget exceeded $100 billion for the first time in history. By fiscal year 1971 it exceeded $200 billion. By fiscal year 1975 it exceeded $300 billion and a figure over $400 billion is now certain in FY 1977. Federal government outlays for the past 10 fiscal years grew 175% while total GNP increased about 120% -- that is, the growth in government outlays was over 40% greater than that of the economy itself.

The growth in spending has also far exceeded the growth in revenues, so that during these same years we have posted a string of budget deficits that are unprecedented in peacetime. And the Federal Government--including the regular departments and agencies as well as the offbudget agencies that have been set up over the years partly to avoid the discipline of the budget process will have been forced to borrow over $350 billion dollars from our private money markets over the decade ending with the current fiscal year. That is over a third of a trillion dollars.

Because of our unwillingness to live within our means, we have posted a string of budget deficits that are unprecedented in peacetime. And the Federal Government -- including the regular departments and agencies as well as the off-budget agencies that have been set up over the years partly to avoid the discipline of the budget process -- will have been forced to borrow over $350 billion dollars from our private money markets over the decade ending with the current fiscal year. That is over a third of a trillion dollars that might otherwise have been used to build new plants and to create new jobs in the private sector.

It is no wonder that inflation has accelerated and interest rates have risen to historic levels. When the Federal Government runs a deficit year after year, especially during periods of high economic activity, it becomes a major source of economic and financial instability.

The enormous rise in government spending of the]960s and]970s has added enormously to the aggregate demand for goods and services and thus has been directly responsible for the upward pressures on price levels.

Heavy borrowing by the Federal sector associated with the rise in spending has also been an important contributing factor to the persistent rise in interest rates and to the strains that we have seen in the financial markets. With the Treasury Department standing at the head of the credit line with oversized needs, interest rates are naturally driven up, some private needs go unfulfilled and private investment suffers. This is the essence of the "crowding out" problem that could be foreseen several months ago and has now so obviously surfaced, despite the relatively slow pace of business activity.

An even worse result of such budgetary practices is that continuing deficits tend to undermine the confidence of the public in the capacity of our government to deal with inflation. Thus, it should be apparent that a prolonged period of irresponsible fiscal policies now lies at the root of many of our economic troubles.

A second clear cause of current financial conditions has been an excessive expansion of the money supply over the past decade relative to reasonable price stability. Ultimately this put upward pressure on the rate of inflation and interest rates. A good deal of this monetary growth, I might add, is related to the chronic Federal budget deficits, but another part is attributable to anti-recessionary policies which have often proved to have been late in timing and overly stimulative. Needless to say, this process has contributed to the apparent stop-go nature of the government's economic policies.

I do not mean to suggest that a pattern of excessive fiscal and monetary policies is solely to blame for inflation. Higher food and energy prices have obviously had an impact in most recent years. The Federal regulatory system has become a heavy burden, forcing many unnecessary costs upon producers and consumers. Devaluations of the dollar and other actions have also played a role. But I would argue that the underlying causes of the past decade of higher and higher inflation rates are the clearly excessive fiscal and monetary policies that began back in the 1960s.

The results of these policies have been clear and disconcerting. Soaring inflation has been the cause of a rapid growth of debt which is endangering the well-being of some consumers, municipalities and financial institutions. In particular, the inflation has significantly raised the dollar cost of physical investment needs. Those higher costs, coupled with accounting procedures that are unable to adjust to high rates of inflation, have forced companies to seek more and more external financing. Together with a tax structure that is biased against equity financing, this pressure has resulted in an enormous increase in corporate debt to the point where it causing top-heavy corporate balance sheets and increasing illiquidity within the companies themselves. In fact there is now evidence of past underinvesting in productive facilities and where it is questionable whether many corporations will have the ability to finance the record capital needed in the decade ahead.

Furthermore, the higher inflation plus the greater volatility in interest rates related mostly to government policies has understandably made lenders more leary about long-term commitments. Higher interest rates are demanded and received to hedge against future inflation and to compensate for sharp, unanticipated changes in yields. Moreover, shorter maturities are routinely requested in order to hedge against the possibility that future rates of inflation might be higher than those anticipated.

The combination of the rise in the cost of funds, the hostility in some areas towards corporate profits, and increased uncertainty about future returns has caused corporate treasurers to focus primarily on projects with high returns and reasonably assured payouts, accentuating the pattern of underinvesting. Many projects which would have been undertaken in previous years are now passed over.

In recent years, in fact, inflation has led to a pattern of underinvesting which in turn has resulted in much lower gains in worker productivity. From 1948 to 1966 productivity increased by 3.5% per year on average. From 1967 to 1974 the rise has been only 1.7% -- less than half the previous rate. By almost every reasonable comparison that can be made between past and recent levels of productivity, the net conclusion is the same: there has been a sharp falloff in the growth of output per manhour over the past decade. This has intensified our inflation problem, has hurt corporate profits, has resulted in lower growth than was necessary, and has greated retarded the increase in worker living standards. It cannot be said often enough that our major source of productivity gains is from more capital and it is only through productivity gains that real living standards can be improved.

To some degree, the financing problem that I have been discussing is even adversely affecting the current recovery in business activity. High interest rates are already slowing the flow of savings into thrift institutions and hence the new flow of home mortgage money.

Thus inflation has been a basic cause of a long series of unhappy economic events -- the pattern of stop-go behavior, rising interest rates, slow real growth, disappointing worker productivity, higher risks of corporate bankruptcies and a body politic calling for some quick cure all that doesn't exist. It should come as no surprise that our financial structure -- still a wonder in terms of the amount of credit it processes and the efficiency with which it allocates fund to different users -- is feeling a serious strain.

The Future Demands on the Financial Structure

As you know, a basic economic function of the financial system is, of course, to channel the enormous flow of capital into its most productive uses. It is the transmission mechanism that encourages the accumlation of real physical capital -- factories, housing, tools, et cetera. That capital in turn creates new jobs, enables workers to be more productive, generates a higher real living standard, helps us to meet foreign competition, restrains the pace of inflation, promotes a growing economy, and enables us to meet expanding demands from the public. Investment capital thus provides the driving force behind economic growth, and it can work effectively only if our financial markets are working smoothly.

To determine whether we will reach our future goals, we must therefore first estimate what our capital investment needs will be and then see whether our system will produce those funds and whether it is also capable of handling the financing flows required for that investment. In my judgement, the answer is that the financial system can rise to this challenge, <u>but</u> only if we chart a new and significantly different course.

By every available standard, our future requirements for capital are enormous.

The most immediate need for more capital is to create jobs for our rapidly growing labor force. Between now and 1985 the labor force will expand by roughly 15 million persons. In addition, there are at least 3-4 million unemployed persons in the labor force today who must be reemployed. By comparison to the 18-19 million jobs that will thus be needed in the coming decade, our economy created approximately 13 million jobs during the past decade. Recognizing that excess capacity now exists in the economy, the task ahead is still very formidable indeed.

In addition to the challenge of creating new jobs, a second broad set of capital needs ahead center around specific public policy objectives: the development of new energy resources to become more self-sufficient; an improvement in the quality of our environment; safer working conditions to protect the well-being of our work force; the provision of more and better quality housing to satisfy the needs of a growing population; and the need to replace old production facilities in order to remain competitive internationally.

The list could go on and on. Of course, there is no single "correct" dollar total that can be identified with these outlays. But we can be certain that the levels are extraordinary. In the energy field alone, some estimates of capital needs over the coming decade are close to $1 trillion.

Together, these two broad categories imply total private investment outlays between $4-4 1/2 trillion over the next decade. By contrast, the cumulative total over the past decade was $1.5 trillion. Thus, you can see that our capital expenditures in the decade ahead will have to be roughly three times as large as those of the past decade. This sounds enormous but it is manageable in view of the growth in the economy ahead. In essence, savings must be increased from a bit over 15% to almost 16% of Gross National Product -- a feasible task given proper policy steps.

Whether the financial mechanism can handle the huge flow of savings, investment and credit associated with these capital needs is, however, an open question. The rise in corporate debt over the past decade, carrying with it increasing fixed payment obligations, raises nagging questions about the ability to finance future capital outlays. It is just not clear whether the system can indefinitely accommodate a continued rise in debt relative to assets and equity. Indeed, further increases in leverage and repeated declines in coverage ratios will eventually cause credit ratings to deteriorate and interest costs to rise. The system could become quite illiquid with increasing risk even in the face of just a modest recession. If chronic Federal budget deficits continue to drain the savings pool, we will have less investment, lower productivity, higher interest rates, and higher inflation. At the top of the list of those who would be hurt are the traditional thrift institutions and along with them the housing industry. Small banks, insurance companies and other would also soon feel the strain.

In my view, as I have said, our ability to meet these capital requirements and the ability of the financial system to accommodate these needs will only be assured if there are pronounced shifts away from past public policies. What we need are government economic policies that are going to allow the financial mechanism to perform its functions and encourage sound, stable growth.

General Policy Needs

I would like to offer four concrete suggestions for future policy directions -- directions to which President Ford and this Administration are committed.

First, we must be sure that we have eliminated the stop-go behavior on the part of the government in setting and pursuing economic policies. Such policy changes have typically been a response to short-run developments in the economy, and because there is a lag between the development of a new policy and its impact on the economy, abrupt policy changes tend to come too late to accomplish their original goal. At times, rather than acting to stabliize the economy, such shifts have tended to accentuate the economy's basic cyclical swings and thus become destabilizing. Actions that gain spectular economic results for the near term cannot be the panaceas for our government if they risk moving the economy off the path of sustainable, long-term growth. Good economics is good politics.

In pursuing greater stability in our policies, we should also shift away from past practices of relying upon government spending and general tax cuts to stimulate the economy while using tight money to slow it down. This practice has in effect meant that we have stimulated consumption for expansion and retarded investment in order to slow the economy. Over time, such a mix creates an inadvertent but still significant anti-investment bias to government policies which is inappropriate to our long-term capital needs and to the very functioning of our financial structure.

At a minimum, the growth in government spending must be brought into closer line with the growth of the economy and we should aim for a surplus budget position at high employment levels in order to reduce the government's drain on the private saving stream. The country cannot afford to have the Treasury use its superior credit rating to deprive private borrowers of needed funds. To do so would frustrate the accumulation of sufficient capital resources relative to our needs and would impose growing pressure on an already weakened financial mechanism.

Secondly, we must maintain a consistent effort to reduce the rate of inflation -- not just to the 6-8% range but eventually to something much lower. And with that effort, we must also loosen the grip of the inflationary psychology that is now so strong. Parts of our financial structure as it now exists will not remain viable with sustained high single-digit inflation, let alone a double-digit pace. The key to reducing inflation, as I have said over and over again, is to maintain sound, responsible fiscal and monetary policies. If the Government were to do only that during coming years, it would do far more to help the people of this country than any number of assistance programs can ever dream of accomplishing.

Third, we must achieve fundamental reforms in our tax system -- reforms that will provide an essential insurance policy against future economic contractions; reforms that will help to redress the imbalances in corporate balance sheets and broaden equity ownership; and reforms that will encourage the levels of savings and capital investment that are so vitally needed for our future. The increasing aversion to risk taking in the lending and investing process must be arrested.

Toward those ends, the Administration just over seven weeks ago proposed to the Congress a "Tax Program for Increased National Saving." This proposal would eliminate the double taxation of corporate earnings which results from first taxing corporate incomes and then taxing individuals who receive dividends. I strongly believe that this proposal -- which has already been adopted in most of the other major industrialized countries -- would make a significant contribution toward meeting our capital needs of the future. Moreover, it is the only major tax proposal of which I am aware that comes to grips with the growing imbalances between corporate debt and equity.

Some critics have attacked this program for its alleged bias toward wealthy investors. They accuse us of favoring a "trickle down" approach which would concentrate benefits among corporations and rich individuals, whose increased wealth would slowly work its way down to the broader base of workers and low-income groups. Such criticism typically claims that this is socially unfair and that there is so much "leakage" along the way that those at the bottom receive too little too late.

If this were in fact an accurate description of either the workings of the U. S. economy or my recommendations for encouraging capital investment, then I would join the critics. In reality, however, the U. S. economy has created the highest standard of living in the world: the average family income approached $13,000 in 1974; the level of poverty has been significantly reduced within our population; jobs have been created for 86 million people; personal expenditures continue to represent about two-thirds of our GNP; and Federal income maintenance and security outlays have soared to $118 billion a year. This is no small trickle. Indeed, it is clear that the American economic system has provided the most effective "flow through" of benefits of any system ever devised. The critics may engage in as much sloganeering as they want, but they will never refute hard reality.

As for our tax recommendations, they are not biased for or against personal consumption. I certainly do not want to see any sharp reductions in consumption. The strength and durability of the current economic recovery is directly dependent on the pace of consumer spending over the next several quarters. My point is simply this: over the past decade we have had a most unsatisfactory experience in terms of unemployment, inflation, productivity and international competitiveness; if we want to achieve better results over the coming decade, then we must first "tilt" upwards the share of national output committed to capital investment. Only by increasing the share of investment will we successfully create enough jobs and meet our future economic goals.

The fourth and final recommendation that I would set forth tonight is the responsibility not just of our Government but of all of us who are concerned with the future of our country. With your help and the help of many others, we can devise the best possible policies to deal with our economy -- policies such as the ones that I have just outlined -- but those policies will ultimately fail unfless they have the broad-based support of the American people. The opinion polls that all of us see from time to time on public attitudes toward private business only confirm what we know from daily experience: that our business institutions, just like most other institutions within our modern society, do not enjoy the full faith and trust of the American people. If anything, public misunderstandings about profits, capital investment and the like are growing, not receding. Yet I also believe that this period of recession and high inflation provide us with an opportunity to reverse these trends, because people are confused now and they are looking for answers. Who is in a better position to provide those answers than those who are the leaders of our economic and financial communities? Who can explain the free enterprise system more honestly and completely than those who have been successful working within it? And who are these leaders? Many of them are here in this chamber tonight. It is now our responsibility, I would suggest, to go to the American people and lay it all on the line. With the stakes as high as they are today, we have no other choice.

Conclusion

What does all this mean? It seems to me that the financial markets today are most assuredly telling us something about the behavior of our economic and financial system. Something is unquestionably out of balance. Our trouble certainly does not mean that collapse or even crisis is near at hand nor that the financial system cannot play its part in bringing about the huge savings and investment needs of the next decade. But it does mean that we have to change our ways. Inflation must be sharply reduced. Government policies must be redirected toward longer-term time horizon and shifted toward a better mix or fiscal and monetary policies than existed over the past decade. And the tax bias against capital formation must be redressed.

If these steps are taken, we can look forward to better growth, more jobs, higher incomes, a closer fulfillment of our broad public policy goals, a lower rate of inflation, a more stable economic system and a robust financial structure. If we fail to act responsibly -- through inertia, political differences or just plain misjudgment -- then we can look forward to continued trouble. There will be higher inflation, lower growth, frustrated ambitions, and continued erosion of our financial base; ultimately, we could deliver a staggering, if not lethal, blow to our economic and political systems as we have known them.

The latter scenario sounds pessimistic, but let us be clear: it is certainly not inevitable. We know fairly well how we got into the current economic situation. It has not resulted simply from external problems such as OPEC pricing policies or disappointing Russian crops, but primarily from many years of shortsighted internal policies. We also know how to get out of the current situation and that is by pursuing sound, prudent policies. In coming months, as the recovery progresses, the improved economic environment may tend to camouflage some of the conditions that I have described. But we should not be lulled into complacency: these are serious, deep-seated problems that will require time to understand and even more time to untangle. Patience, understanding and support will all be demanded from the public. But I have faith that if the American people are told the truth, if they can gain a clear understanding of these complex difficulties and are not fooled by the apologists for more and more government spending, then we will meet our current and future needs. This country has always been at its best when the challenge was greatest. That must be our goal today. When the time comes to turn this country over to our children, let it be said that this generation of Americans, like those of the past, did not flinch in the shadow of a great challenge but instead rose up to meet it squarely.

Thank you.

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FOR IMMEDIATE RELEASE September 25, 1975

TREASURY ECONOMISTS VIEW INFLATION
AS GREATEST RISK TO RECOVERY,
ACCORDING TO SEPTEMBER'S TREASURY PAPERS

A new round of inflation at this stage of the recovery is the principal risk to a continued economic upswing, senior Treasury economists have written in the September edition of the Department's monthly publication, Treasury Papers.

Noting that recent measures of economic activity indicate that the economy has rebounded strongly from the recession, H.I. Liebling, a senior economic adviser, said that "only a resurgence of inflation might deflect its course from a path of sustained and robust growth in the period ahead."

Liebling said the pattern of the 1974-75 recession and the subsequent recovery was similar to other recent economic downturns. "The principal risk," he commented, "would appear to be the impairment of confidence arising out of renewed inflation rates."

Sidney L. Jones, Assistant Treasury Secretary for Economic Policy, said in a separate article that because the "immediate pattern of business investment will be largely determined by the strength of personal consumption, it is crucial at this stage of the recovery that a surge of new inflation pressures be avoided."

An escalation of prices during the next few months -- or of inflationary expectations -- "would quickly disrupt both personal and business spending plans which would, in turn, curtail both the strength and sustainability of the recovery," he declared.

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Jones said the nation must "guard against fiscal and monetary excesses" and called for increased business capital investment to continue expansion and create productive capacity and jobs.

Treasury Secretary William E. Simon in the September issue reported on progress made on monetary reform and aid and development goals, as recorded at the recent meetings in Washington of the International Monetary Fund and the World Bank. He warned against overly stimulative policies that would boost prices, noting that "history is littered with the wreckage of governments that have refused to face up to the ravages of inflation."

Other features in the September Treasury Papers include the Secretary's testimony on the Government's Emergency Loan Guarantee Program, involving Lockheed Aircraft Corporation; a report on Treasury's new program to send Federal benefit checks directly to banks, by Fiscal Assistant Secretary David Mosso; a press briefing by Assistant Secretary David R. Macdonald on Treasury's inquiry into auto dumping charges against foreign countries; and a graph contrasting the sharply rising prices charged by the OPEC with prices of the cartel's imports.

Treasury Papers is a review of economic policy developments compiled from speeches, testimony, news materials and other statements, and is available upon request at Treasury Papers, Room 2313, Main Treasury, 15th and Pennsylvania Avenue, N.W., Washington, D.C. 20220. Telephone 964-2041.

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STATEMENT OF THE HONORABLE EDWIN H. YEO, III,
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS,
BEFORE THE SUBCOMMITTEE ON DOMESTIC MONETARY POLICY OF THE
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING
Thursday, September 25, 1975

Mr. Chairman, I am happy to appear before this Committee to present the Treasury Department's views on the several bills before the Committee which would require the payment of interest on Treasury tax and loan accounts. The Treasury is in complete support of the idea of providing a satisfactory return on Treasury funds deposited in Treasury tax and loan accounts at commercial banks. We strongly believe, however, that the accomplishment of this objective through the authorization of the payment of interest on deposits as proposed in the bills is a less desirable approach than one which would provide the Treasury with authority to invest its temporarily excess checking account balances on a short-term basis. We therefore wish to present to the Committee for its consideration a substitute bill which we believe will fully satisfy the Committee's purpose. The substitute bill being presented to you today is identical to the proposed legislation which Secretary Simon forwarded to the Speaker of the House on May 21, 1975, and

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which, if enacted, would authorize the Treasury to invest tax and loan balances in money market instruments for cash management purposes.

Of the bills before the Committee, H.R. 3035 is the most detailed and we will, therefore, compare our proposal with that bill. In our opinion the differences in H.R. 3035 and the proposed substitute bill are simply in the techniques to be followed. I would like, therefore, to first discuss substance and then to compare the techniques which each of the bills proposes.

The Treasury Report on a Study of Tax and Loan Accounts, which was sent to the Congress on July 1, 1974, concluded that the implicit costs to the Treasury of maintaining tax and loan accounts had risen substantially beyond the value to the Treasury of applicable services rendered by banks. The report recommended that for purposes of monetary management, the tax and loan system be retained, but that means be developed for (1) employing a portion of the funds in ways that provide adequate returns to the Treasury, and (2) compensating banks, by fees paid from appropriations, for a limited number of services performed.

The Treasury has no authority to invest temporarily surplus cash except in time deposits. The 30-day minimum maturity for such deposits has made that course of very limited value. We, therefore, explored various alternative ways of recouping earnings on our balances through procedures potentially available under statutory authority of the Federal Reserve Board. Since this has not been productive, it seems essential that additional legislative authority be obtained to make possible the most efficient employment of temporarily surplus Treasury cash.

In the interim, we have been able to minimize the difference between the value of tax and loan balances and the value of services provided by the depositaries maintaining such balances. This has been accomplished by a sharp reduction in tax and loan account balances. From October 1, 1974, through August 31, 1975, daily balances in tax and loan accounts have averaged \$1.4 billion. In prior years such balances had averaged about \$5 billion. While this action of reducing balances has resulted in a reasonable equilibrium between the value of balances and the value of services, it has been accomplished at the expense of seriously complicating the Federal Reserve System's management of bank reserves and other monetary aggregates. We have achieved equilibrium of costs and revenues at the expense of inducing disequilibrium in the money and capital markets, a disequilibrium that has created uncertainty in the market place with consequent higher interest rates and higher Treasury borrowing costs. What

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has happened is that the swings in the Treasury's cash balance at the Federal Reserve Banks have forced the Federal Reserve System to drastically increase its open market operations in order to nullify the impact of the swings on bank reserves. This has created confusion in the market as to which Federal Reserve actions are to offset swings in Treasury cash and which are to carry out monetary policy.

A more effective solution would be to invest Treasury cash and to pay for services. Surely no one can disagree with the principle of investing surplus cash at an appropriate interest rate and paying appropriate fees for services rendered. The issues are what form the investment takes, what is an appropriate rate of interest, and what are appropriate fees. In general terms, an appropriate interest rate and fee structure would be one that covers all costs of handling the tax and loan account and providing other compensable services, including the cost of capital and other overhead costs. Whatever technique is used and whatever rate of interest is applied, we must provide enough incentive for banks to continue to maintain tax and loan accounts.

We believe that the objectives of the Federal Reserve's monetary management and an efficient Treasury collection system will best be accomplished by lending to each depositary maintaining a tax and loan account any balances in excess of the Treasury's operating needs. These loans would be secured by a pledge of collateral and would bear interest at rates related to the Treasury's short-term borrowing costs and to the depositary's short-term (day-to-day) investment potential for such funds. In this way, the Treasury would not actually be entering the market as a lender of funds and the impact on money market rates would be essentially neutral. This plan of investment, however, might not at all times or for the full amount of investable funds be the best way of accomplishing the stated goals. We feel that it is desirable, therefore, to provide for other investment authority, that is, authority to invest directly in Treasury and agency securities as stipulated in the Treasury proposed bill.

This plan of investment of Treasury cash in earning assets will involve providing additional compensation to depositaries for certain services performed. In the Treasury's area of responsibility, these services involve the maintenance of the tax and loan accounts themselves, acceptance of Federal tax deposits credited to such accounts, and the issuance and redemption of savings bonds. In the handling of tax and loan accounts and related tax deposits, banks will be compensated by means of a credit against interest on the loans or by direct

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fee payments should the costs incurred by a bank exceed the interest value of the Treasury loan to the bank. Compensation for the issuance and redemption of savings bonds would be accomplished by the payment of fees from appropriated funds and budget requests by the Treasury will, therefore, include additional amounts to cover the payment of such fees.

H.R. 3035 gives the Treasury the unique privilege of receiving interest on a demand account -- a privilege not available to any other depositor. The Treasury proposal, on the other hand, gives the Treasury a privilege already available to corporate treasurers and treasurers of state or political subdivisions. Regardless of the merits, the payment of interest on demand accounts is a controversial issue, and to ask for an exception for Treasury accounts, where that exception is not needed, would needlessly jeopardize the achievement of the goal of earning a reasonable rate of return on tax and loan balances.

There is another difference that exists between the two proposed bills which has a significant effect on the Treasury's return on the investment of its surplus funds. The Treasury proposal, in essence, provides for secured Federal fund loans to banks, a type of loan that is not subject to reserve requirements. The maintenance of demand accounts provided for in H.R. 3035 would, of course, subject the balances in those accounts to reserve requirements. The fact that borrowed funds are not subject to reserve requirements would make the investment income to banks of such borrowings greater than the investment return on an equal amount of balances. Banks could, therefore, afford to pay the Treasury a higher rate of interest on borrowed funds than on deposits. Of course, the Congress could stipulate that the tax and loan account balance be exempt from reserve requirements of the Federal Reserve System. Here again, this would be a special exemption for the Treasury. Furthermore, the elimination of reserves could apply only to member banks since reserves for State non-member banks are subject solely to state law.

Since the Treasury proposed-legislation is not specific as to the technique or to the interest rate, both of which we feel must have the flexibility of being established and maintained administratively, I would like to outline how we propose to proceed if the Treasury bill is enacted.

We would adopt a procedure whereby each bank maintaining a tax and loan account would continue the present practice of crediting to the account each day all tax deposits received that day and all proceeds of the sale of savings bonds under current schedules as established by the Federal Reserve Banks. At the close of business each day, each depositary would forward an advice of such credits to the Federal Reserve Bank of its District with the amount of credits being automatically added to an

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open-ended note payable by the bank to the Treasury. As the Treasury needed cash to fund its accounts at Federal Reserve Banks, we would call for payments on such notes in the same way that we now call on balances in tax and loan accounts. Interest due on the notes would be payable monthly and would be computed by applying a specified rate of interest to the average daily amount of the note. Interest for each month would be credited to the bank's tax and loan account as of a specified date in the following month. Each depositary would be required to pledge collateral for the outstanding balance of its note in the same way that it now pledges collateral for the balance in its tax and loan account.

In the Treasury Report on the Study of Tax and Loan Accounts, we expressed an inclination toward the use of Treasury bill rates as a base for establishing the rate of interest to be paid by depositaries on the notes. Upon further study, we are now of the opinion that the rate should also be related to the Federal funds rate since that rate is at this time the best measure of the value of one-day funds to depositaries. We feel strongly, however, that the statute should not specify the rate since swings in money market rates, with, for example, the Federal funds rate moving around the Treasury bill rate, could conceivably make any fixed formula unworkable. Looking back over the past several years, we feel that the Federal funds rate, less about 1%, would have been an appropriate rate for larger banks. For smaller banks, some other measure might have been better since their opportunity to invest on a day-to-day basis is not equal to the larger money center banks.

In conclusion, Mr. Chairman, the Treasury objective is to earn a reasonable return on its temporarily surplus cash and to provide fair compensation to depositaries for services rendered the Treasury. I hope that what I have said makes it clear that the technique embodied in the Treasury substitute proposal would best accomplish these objectives.

Thank you, Mr. Chairman. I will be happy to respond to any questions.

Department of the Treasury Proposed
Substitute Bill

A BILL

To authorize the Treasury to invest for cash management purposes.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, That the Secretary of the Treasury is authorized, for cash management purposes, to invest any portion of the Treasury's operating cash for periods up to 90 days in (1) obligations of depositaries maintaining Treasury tax and loan accounts secured by a pledge of collateral acceptable to the Secretary of the Treasury as security for tax and loan accounts, and (2) obligations of the United States and of agencies of the United States.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON INTERGOVERNMENTAL
RELATIONS AND HUMAN RESOURCES OF THE
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
SEPTEMBER 25, 1975, 10:00 A.M. EDT

Mr. Chairman, I am pleased to appear here today to testify in support of H.R. 6558, which would renew the General Revenue Sharing program. The Administration believes that revenue sharing has worked exceptionally well in responding to the needs which it was designed to meet. We strongly urge that the program be continued in its broad general outlines, as President Ford proposed in his message to Congress on April 25 of this year.

Since General Revenue Sharing was enacted in October 1972, it has made available over $20 billion to States and communities throughout the Nation. These funds have done much to strengthen the viability of our Federal system of Government, a system that is predicated upon the shared exercise of powers and responsibilities. A strong working partnership between Federal, State, and local government is necessary if our democracy is to respond effectively to the needs of our citizens. The General Revenue Sharing program has been the foremost of a number of recent initiatives to improve the way in which the governments in our system can work together to meet these needs more effectively. Revenue sharing combines the efficiency of the Federal revenue raising system with the experience and the accountability that comes from allowing locally elected governments to set priorities for their own States and communities.

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When support was growing for the enactment of the current revenue sharing program, our State and local governments were struggling with inadequate and regressive tax resources to meet the mounting demand for services being placed upon them. While Federal categorical aid programs of various types were available, they did not provide a help for many of the problems facing local governments. Federal grants often did not go to support basic services, such as sanitation or fire protection, where help was often needed. At the same time, the then available Federal aid programs had the effect of making recipients adjust their own priorities to areas where grant money was available. An additional burden often present was the need to match the Federal contribution with State and local funds. These characteristics of the aid programs that existed prior to revenue sharing produced a stifling effect on the creativity and accountability of State and local governments. In enacting General Revenue Sharing, Congress wisely concluded that a new type of generalized, "no-strings" federal assistance was needed to get us back on the road to a sounder Federalism.

The revenue sharing funds distributed over the three years the program has been in existance have helped States and communities maintain vital public services and stabilize the crushing burdens of taxes -- often real property and sales taxes that fall particularly hard on low income families and the elderly.

The flow of shared revenues has increased the capacity of our 50 State governments and of almost 39,000 units of local government to meet many urgent needs. The program is vital to both our large-core cities, faced with acute fiscal problems, and to smaller communities, which are often not participants in other Federal programs. Improved libraries, better police and fire protection, more extensive emergency health and accident assistance, and more adequate local transportation systems have all resulted from the availability of shared revenues. It appears that something like two-thirds of the money distributed through revenue sharing has been used to support the day-to-day operations of government. This is especially true in the case of hard-pressed center cities. The balance has been devoted to capital projects and the purchase of equipment, necessary expenditures which can often fall victim to unforeseen budgetary constraints.

Mr. Chairman, recognizing the accomplishments of the revenue sharing program and the continuing need of State and local governments for this type of generalized Federal assistance, we believe it imperative that the program be reenacted. Members of this Committee know full well that I am a firm opponent of dramatically increased Federal expenditures because that spending, in my judgement, would only fuel the fires of inflation and in turn might trigger another recession. I also oppose efforts to place additional unnecessary Federal shackles on any unit of our society, including State and local government. One virtue of the General Revenue Sharing program that I am supporting here today is that it represents a continuation of present spending levels -- not a dramatic increase. It is also one of the few major programs enacted in recent years that actually lessens the burden of Federal regulation and permits our citizens and institutions to regain greater control over their own destinies. I wish the same could be said of more Federal programs.

Furthermore, I think we should recognize that recipient governments have now built funds from the General Revenue Sharing program into the fabric of their budgets. State and local governments combined now depend upon Federal assistance for well over twenty percent of their resources, and for many jurisdictions General Revenue Sharing represents a large proportion of those funds. About one-quarter of all direct Federal aid to cities, for instance, is now derived from General Revenue Sharing.

In view of the current fiscal squeeze that State and local governments are feeling, this is no time to begin pulling the plug on Federal support. If revenue sharing payments were reduced or terminated, the impact on State and local governments would be severe and our efforts to assure economic recovery would be dealt a serious blow. Governments would be forced either to cut back further on services and public employment or to increase taxes and borrowing. Either course of action would defeat the objectives of recent Federal efforts to reduce the tax load and stimulate real economic growth. In fact, it is imperative not only that revenue sharing be continued, but that action to do so be undertaken as quickly as possible. We must do all we can to assure the mayors, the county councils, and the governors of our Nation that they can count on revenue sharing in their future budgetary planning. State and local decision makers are already beginning to chart their 1977 budgets, and they need to know this fall -- not next year -- whether the Federal Government will still be willing to help.

After carefully reviewing the recommendation of an interagency study group, President Ford requested that Congress renew revenue sharing in its existing general outlines. The President's decision was based upon conclusions about the broad successes and the continuing need for the program which I have just outlined. We believe our recommendation represents a balanced proposal which takes into account the needs of the State and local governments, the needs of the Federal Government, and the concerns expressed in independent evaluations of revenue sharing.

I would now like to review some of the important details of our proposal and explain the reasons why we are recommending that certain portions of the current program be continued while others are changed.

We are proposing that the new revenue sharing program run for five and three quarter years. A multi-year appropriation would be made for its full length. It is our view that this approach will offer a considerable measure of stability and certainty to recipient governments, while still allowing for review and adjustment in light of circumstances a few years hence. We rejected two extreme alternatives that others have suggested -- annual appropriations and a permanent trust fund arrangement.

To enable multi-year funding, H.R. 6558 would exempt General Revenue Sharing from annual appropriation procedures set out in the Congressional Budget Act. Another provision in our legislation requires that the Secretary of the Treasury submit recommendations to Congress concerning further extension two years before the proposed renewal program expires.

This requirement will assure that Congress has an adequate opportunity to again evaluate the program's performance.

The Administration considered various amounts and methods of funding for the GRS program. These included (1) fixing the funding level at a portion of adjusted gross income based on Federal tax returns; (2) price-adjusting the appropriation level to reflect the cost of living index; (3) providing for various annual stair-step increments greater than $150 million; and (4) continuing the $150 million stair-step increases set out in the present program.

We concluded that the existing funding mechanism offered the most balanced solution to this question. While providing for a moderate expansion of the program, it does not ignore the need to "hold the line" in Federal spending. Tying funding levels to the income tax base or to the CPI as suggested above, would likely have led to much higher program costs.

Undoubtedly, Mr. Chairman, the thorniest issue of revenue sharing renewal, both technically and politically, is how funds are to be allocated among recipient jurisdictions. Besides the basic formulas for the allocation of funds among and within States, several other mechanisms have an extensive impact on the relative sizes of entitlements. The most important of these are the split of funds between State and local governments and the constraints imposed on the intrastate formula.

In our review, we looked at a large number of alternative formulas, including those resulting from the Brookings Institution monitoring effort. We have continued to review the additional studies of the allocation formulas, sponsored by the National Science Foundation, as they have become available. We have observed that there is little consensus as to which formula changes would be most constructive.

The Administration decided to propose the retention of the existing formulas for distribution of shared funds among and within States. We recognize that the existing formulas

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are a product of competing philosophical, geographic, and jurisdictional interests. But we have found considerable evidence which indicates that the present formulas are basically equitable in meeting the needs of recipient governments. It would be difficult to design and win political acceptance for an altered national formula which could better respond to varying governmental and fiscal situations across the country. Several NSF-sponsored research efforts have indicated that the existing formulas do respond to need in the manner Congress intended. Other studies evaluating the formula on its own merits have concluded that the distribution pattern among localities does well in reflecting both need and fiscal effort.

Findings by the Brookings Institution, ACIR, and the GAO indicate that, in general, greater per capita revenue sharing allocations go to poorer, as compared to richer, States. For example, Brookings indicates that for 1972, governments in Mississippi received $39.90 per capita as compared to $28.05 for California. Brookings and ACIR conclude that hard-pressed center cities derive greater per capita benefits from revenue sharing than do their wealthier suburbs. An ACIR study made the following comparison, using Fiscal Year 1974 data: Los Angeles received $12.56 per capita; Beverly Hills' share came to $4.33. Chicago's entitlement came to $19.89; Winnetka received $3.68 per capita. Cleveland had available to it $18.13 per capita, while Shaker Heights received $2.97. Milwaukee was granted $19.38 per capita under revenue sharing, while Fox Point was awarded $4.55. The contrast noted above is not principally dependent on the fact that the more wealthy suburbs were chosen in the illustrations. The average entitlement for all suburbs of Los Angeles was $6.14 per capita. For Chicago's suburbs generally it was $6.55. For jurisdictions in the suburban Cleveland area it was $6.49. For suburbs of Milwaukee the percapita amount distributed was $6.47.

We are asking that the existing manner in which revenue sharing funds are divided between State governments and their political subdivisions remains unchanged. The current two to one split in favor of localities is uncomplicated and is not far out of proportion to the total division of direct government expenditures nation-wide. It also reflects the greater fiscal need and lack of budgetary flexibility often found at the local level of government. To alter the one third-two thirds split would have a disruptive impact on many jurisdictions and would be politically and conceptually difficult to bring about. Finally, since most States transfer large portions of their financial resources to localities, this issue may be considerably less important than it at first glance seems.

While we do not seek changes in the basic allocation formula, our bill would raise the average statewide per capita allocation limit on local entitlements from 145 percent to 175 percent in five steps. This would allow the intrastate formula to allocate fund more freely in line with its own definition of need. Some needy governments, in a number of cases large cities, would benefit from such a change. Since the change would be phased in, other jurisdictions would be protected from serious losses by the annual $150 million increases in the total funding of the program.

We found that a further increase in the maximum constraint beyond 175 percent or a reduction below the 20 percent minimum per capita floor on local entitlements would not have the beneficial results for needy urban areas, often predicted. Removal of, or a reduction in, the 20 percent minimum per capita constraint does not free up very much money for redistribution in most States. Raising the 145 percent maximum higher than 175 percent often has little positive impact since most governments are restrained below that level. Additionally, removal of, or further adjustments to, the limits will often produce very undesirable results. These include sharply reducing entitlements for many jurisdictions in a State, directing excessive funds into resort areas and industrial enclaves and granting a disproportionate increase in funding to one large city in a State at the expense of other sizeable cities.

The Administration fully endorses the desire expressed by numerous members of Congress and by various civil rights

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groups that the General Revenue Sharing program not serve, in any way, as means by which to avoid the antidiscrimination provisions of Federal statutes. In our review of revenue sharing, we concluded that the strong civil rights provisions of the State and Local Fiscal Assistance Act are generally adequate to provide these important protections. We felt, however, that the renewal proposal should specifically set forth the remedies available to the Secretary of the Treasury to assure that shared revenues are not used to support discriminatory activity.

The proposed renewal statute specifies that where discrimination is found the Secretary of the Treasury will have the option of withholding the entire amount of a recipient's entitlement or of limiting the withholding to those funds directly involved in the discriminatory program. The Secretary is also specifically authorized (1) to terminate the eligibility of the jurisdiction to receive one or more future payments and (2) to require repayment by a jurisdiction of revenue sharing funds expended in a discriminatory program or activity.

Two ends would be accomplished by these changes. First, it is arguable that the present statute, through references to Title VI of the Civil Rights Act of 1964, limits withholding and termination to the local program or portion of funding for which there has been a finding of noncompliance. It can also be argued that since Title VI does not authorize repayment, the existing GRS statute would not permit this either. As a result, present revenue sharing regulations, by authorizing both repayment and the withholding of the entire entitlement, might be said to exceed what is permitted under section 122 (b) (2) of the Act. The change proposed would explicitly authorize both actions. Our primary goal here is to eliminate possible confusion and counterproductive litigation.

The second end accomplished by the amendments embodied in H.R. 6558, would be the establishment of a more flexible usable tool for enforcement. Such flexibility is needed in the case of revenue sharing, because of the many ways in which funds can be utilized by recipients.

In cases where it is appropriate to withhold only part of a jurisdiction's entitlement, such action lessens the unnecessary harm caused to citizens benefiting from funds not utilized in a discriminatory manner. It should be noted that the Secretary could withhold all shared revenues going to a jurisdiction should there be any doubt about which portion of the entitlement was being used in violation of the Act. This sanction could also be applied where recipients purposely redirect revenue sharing funds in relation to their own revenues in order to avoid compliance.

The Treasury Department has been attempting to strengthen the Office of Revenue Sharing's compliance effort, especially in the area of non-discrimination. In addition to relying upon internal resources, we have developed agreements with State audit and human rights agencies and other Federal agencies to achieve as much benefit as possible from their existing compliance programs. The Administration feels that such an approach is reasonable given the broad jurisdictional impact of revenue sharing as well as the underlying philosophy of the program.

We are currently involved in making a careful assessment of the compliance operations in order to determine how to further improve them. As to both matters we have carefully considered evaluations made from both within and outside of the Federal government.

It is important that the Secretary of the Treasury have the capacity of flexibly applying the other few restrictions and requirements that are critical to the revenue sharing program. Such an approach allows adjustment to varied local situations. We can apply requirements more effectively and reduce unnecessary burdens. To this end, H.R. 6558 grants the Secretary of the Treasury increased discretion to prescribe the form and content of the reports to be made out by recipients before and after the use of shared revenues. This modification should help to provide information that is more useful to local citizens and to the Federal Government. It should also eliminate costly and unnecessary requirements on small governments. It is not intended to lessen the accountability of jurisdictions receiving substantial entitlements.

Similarly, our proposed legislation permits the Secretary to authorize methods other than publication in a local newspaper to inform citizens of the proposed use of GRS funds. The Secretary would follow such a course of action where newspaper publication costs are excessive in relation to the amount of shared revenues received by a local government, or where better methods for informing the public are available.

The Administration would also like to improve the flexibility needed to account for differing local situations in the area of public participation. The President is proposing that a recipient government be required to assure the Secretary of the Treasury that it will provide its citizens with notice and the opportunity to participate in revenue sharing spending decisions. The opportunity for citizen involvement would be provided through a hearing or by other appropriate means prescribed in regulations issued by the Secretary.

Since most State and local governments already have such participatory mechanisms in place, this new requirement will not place new burdens on the great bulk of recipients. It has been designed to accommodate the variety of practices which have evolved around the nation because of jurisdictional size, geography, and political history.

The expenditure of revenue sharing funds in a fashion which is honest, efficient, and in line with the needs and desires of citizens depends upon the vitality of democracy in our States, counties, cities, and towns. Consequently, we felt that the proposal of an additional requirement for citizen participation was wholly in keeping with the revenue sharing approach to Federal assistance. Congress in 1972 decided to share Federal tax money with general purpose State and local governments because it had confidence that their representative processes would assure responsible use of these funds. We do not think that this confidence was misplaced.

The Administration appreciates the courtesy extended to it by Chairman Fountain, and Congressmen Horton and Wydler in introducing this General Revenue Sharing renewal legislation at our request. I appreciate the opportunity given me today to set forth the reasoning behind the legislation before you. We think that HR 6558 is a balanced, responsible proposal which, while seeking the renewal of a basically successful program in its broad general outlines, does not overlook opportunities to improve its effectiveness. We urge its early and favorable consideration.

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FOR IMMEDIATE RELEASE September 25, 1975

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TREASURY ANNOUNCES TENTATIVE DISCONTINUANCE OF ANTIDUMPING INVESTIGATION ON WATER CIRCULATING PUMPS, WET MOTOR TYPE, SUITABLE FOR USE IN RESIDENTIAL AND COMMERCIAL HYDRONIC HEATING SYSTEMS, FROM SWEDEN

Assistant Secretary of the Treasury David R. Macdonald announced today the tentative discontinuance of an anti-dumping investigation on water circulating pumps, wet motor type, suitable for use in residential and commercial hydronic heating systems, from Sweden. Notice of this decision will appear in the Federal Register of September 26, 1975.

The investigation revealed that the manufacture of this merchandise in Sweden by the sole exporter, Sundstrand Hydraulic A/B, ceased in mid-1974, and that exports of this merchandise from Sweden were terminated in January 1975. Formal assurances were received from Sundstrand International Corporation S.A., a corporation of Switzerland and the parent company of Sundstrand Hydraulic A/B, and from Sundstrand Corporation of Rockford, Illinois. These assurances state that sales to the United States of water circulating pumps manufactured in Sweden have terminated and will not be resumed.

Imports of the subject merchandise from Sweden during calendar year 1974 were valued at roughly $1,325,000.

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WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 25, 1975

MEMORANDUM TO THE PRESS

Attached for immediate release is a letter Secretary of the Treasury William E. Simon sent today to the President of the Senate and the Speaker of the House transmitting proposed legislation on access to income tax returns.

Also enclosed is the text of the proposed law and a technical explanation of the legislation.

Attachment

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THE SECRETARY OF THE TREASURY
WASHINGTON

SEP 24 1975

Dear Mr. Speaker:

There is forwarded herewith a draft bill "To amend the Internal Revenue Code of 1954 to restrict the authority for inspection of returns and the disclosure of information with respect thereto, and for other purposes." It would be appreciated if you would lay the proposed legislation before the House of Representatives. This proposal was developed in conjunction with Administration initiatives in the privacy area. The proposal is also being sent to the President of the Senate.

Inspection and disclosure of tax returns and tax return information is presently governed by section 6103 of the Internal Revenue Code and by Executive Orders and Treasury Regulations adopted pursuant to the authority provided in that section. This statutory and regulatory apparatus has generally worked very well. The number of complaints or allegations of abuse has been very small, particularly when one considers the immense volume of returns and associated information processed each year by the Internal Revenue Service.

Nevertheless, we believe it is important that the American taxpayer know who will have access to information reported on his tax returns and under what circumstances the law makes that information available to others. Therefore, we have completely reexamined the existing rules with a view to ensuring the maximum confidentiality of tax returns and tax return information consistent with effective tax administration and legitimate needs of other federal agencies to obtain tax information for law enforcement and statistical purposes and of states for purposes of their own tax administration.

The proposed legislation would establish a general rule that all tax returns and related information are confidential and may not be disclosed except as authorized by this legislation. The principal instances in which tax return information would be made available to agencies or persons outside the Internal Revenue Service are described below.

Specific statutory authority for access to tax returns by the tax writing committees of Congress would be continued as under present law. Other committees would be permitted access to tax returns only by Congressional resolution substantially in accordance with present procedure. The practice under which a number of committees have obtained tax returns pursuant to Executive Orders would be terminated, and control of Congressional access to tax returns would be placed in the Congress itself.

The President and specified higher echelon employees of the White House would have access to tax returns and tax return information only upon a request signed by the President personally. This would incorporate into the statutory limitations those restrictions previously imposed by the President in Executive Order 11805 of September 20, 1974.

Federal agencies seeking access to tax returns or other information concerning a taxpayer from the IRS for law enforcement purposes would have to satisfy new statutory criteria which would be both more specific and more restrictive than under present law. The items of information that could be supplied pursuant to a request for a tax check would be strictly limited and would be specified in the statute.

The Bureaus of the Census and Economic Analysis in the Department of Commerce would continue to have full access to tax return data for the purpose of its use of information on tax returns for statistical purposes. The Federal Trade Commission would have access to tax return data to the extent necessary for the preparation of the Quarterly Financial Report. Other agencies, as well as the states and any other person, could contract for special statistical studies to be undertaken by the Internal Revenue Service but would, of course, have to bear the cost of such studies. In recognition that facility or other limitations might make it impractical for Internal Revenue Service personnel to conduct all such special studies that might be requested, provision is made for the Service to contract with other federal agencies or persons (which might include the requesting party) to carry out such studies. Where such contracts are executed, the outside contractor would be fully subject to all of the safeguards, including the criminal penalties for unlawful disclosure, that are provided to ensure maximum protection of the confidentiality of tax information.

In general, the proposed statutory provisions would be more detailed than under present law, under which most restrictions are contained in regulations or Executive Orders. This statute would narrowly restrict the discretionary authority of the Internal Revenue Service to disclose tax information. The Service would, however, be authorized to withhold disclosure on a finding that the administration of the Federal tax laws would be seriously impaired by such disclosure.

The draft legislation also contains provisions respecting access to tax returns by states and by other persons, procedures that must be followed in requesting tax information and in handling tax information, and record keeping requirements respecting requests for tax information and the disposition of such requests.

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The draft legislation would provide for the first time a comprehensive set of statutory rules for the use of tax information and would supersede both the existing tax law provisions respecting such use and, to the extent applicable to tax returns, the Privacy Act of 1974.

The provisions of the bill are discussed more completely and in greater detail in the enclosed explanation.

The Office of Management and Budget has advised that, from the standpoint of the Administration's program, there is no objection to the presentation of this proposal for the consideration of the Congress.

Sincerely yours,

William E. Simon

The Honorable
Carl Albert
Speaker of the
House of Representatives
Washington, D. C. 20515

Enclosure

PROPOSAL TO AMEND SECTION 6103 AND RELATED CODE SECTIONS HAVING TO DO WITH DISCLOSURES OF FEDERAL TAX RETURNS AND RETURN INFORMATION

As a general rule, section 6103(a) of the Code presently makes tax returns a matter of public record but authorizes inspection only upon order of the President and under regulations based upon his Executive orders. Section 6103(b) specifically authorizes disclosure of income tax returns to State and local tax authorities upon request by a State governor for purposes of State or local tax administration. Section 6103(c) authorizes inspection of corporate income tax returns by shareholders owning 1 percent or more of the corporate taxpayer's stock. Section 6103(d) authorizes inspection of returns or return information by the tax writing committees of Congress and by any select committee authorized to inspect returns or return information by Congressional resolution. Section 6103(f) compels the Secretary or his delegate to tell any inquirer whether or not a person has filed an income tax return for a particular year. Finally, section 6103(g) authorizes disclosure of returns and return information to the Department of Labor, the Pension Benefit Guaranty Corporation, and the Department of Health, Education, and Welfare for purposes of administering the Employee Retirement Income Security Act and an implementing provision of the Social Security Act.

Section 7213(a) imposes criminal penalties on any Federal officer or employee who makes an unlawful disclosure of income tax return information and on any person who unlawfully prints or publishes income tax return information. Section 7213(b) imposes corresponding penalties on officers, employees, or agents of a State or political subdivision of a State who unlawfully disclose such information.

The maximum effort has been made under the existing statute and regulations to assure the confidentiality of tax returns and tax return information consistent with effective Federal tax administration and the legitimate needs of other Federal agencies for tax information for law enforcement and statistical purposes and of the States for

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purposes of their own tax administration. Nevertheless, the existing statutory and regulatory apparatus does not adequately inform the American taxpayer as to who will have access to his tax return and tax return information and for what purposes. Accordingly, the proposed revision of section 6103 reflects a complete reexamination of the present rules and is based on the fundamental principle that tax returns and return information should be held confidential and private except as otherwise clearly provided by statute.

The proposed revision specifically recognizes the applicability of the Privacy Act of 1974 to disclosures of tax returns and tax return information of individuals. Privacy Act standards applicable to an individual's right to inspect his own tax return information are incorporated by cross reference, and the monetary penalty for unauthorized disclosures imposed by section 7213 would be raised to correspond to those imposed by the Privacy Act. The proposed revision would, however, modify the Privacy Act's record-keeping requirements as applied to certain described disclosures of tax information and would specifically exclude the application of the Privacy Act's record-correction provisions and judicial remedies to any administrative or judicial determination of Federal tax liability provided for by subtitle F of the Internal Revenue Code.

Set out below is a description of existing law and practice under sections 6103 and 7213 in major areas and an explanation of how this proposal would affect the present situation.

1. Definition of Tax Return and Return Information

Existing regulations define "return" to include information returns, schedules, lists, and other written statements which are designed to be a supplement to a return or a part of a return. The term is also defined to include "[o]ther records, reports, information received orally or in writing, factual data, documents, papers, abstracts, memoranda, or other evidence . . . relating to [a return]."

Because disclosure standards properly applicable to a return itself may, in varying circumstances, be different from those applicable to Internal Revenue Service files relating to a return and to information in Service files relating to a taxpayer's past, present, or future tax liability, the legislative proposal makes a definitional distinction between a tax return and tax return information.

The proposed definition of "return" is not significantly different from the basic definition of "return" in existing regulations. The proposed new definition of "return information," however, is considerably more specific and detailed than the existing supplemental definition of "return" quoted above from existing regulations. The proposed new definition of "return information" is intended to cover information of any kind filed with, or compiled by, the Service which relates to a taxpayer's past, present, or future tax liability. The new definition would specifically cover private letter rulings issued pursuant to a request made before a date to be inserted in the proposal and all requests for technical advice made by Service personnel to the National Office, regardless of when made. Future private ruling letters generally would be confidential only to the extent permitted by the Freedom of Information Act or other Federal legislation. Also protected is tax information furnished to the Secretary or his delegate in connection with tax administration and accepted by him as confidential pursuant to regulations.

2. Federal Tax Law Administration

Under existing regulations, tax returns and return information are freely available to officers and employees of the Treasury Department whose official duties require such access. By the same token, tax returns and return information are open to Justice Department attorneys and U.S. attorneys where necessary in the performance of official duties relating to Federal tax administration.

While the existing rule applicable to Treasury Department officers and employees has been retained, the rule applicable to Justice Department attorneys and U.S. attorneys has been clarified. The use to which tax returns and return information are appropriately put by these attorneys in a tax context is in preparation for tax litigation or in an investigation pointing toward tax litigation. As will be described below, the proposal restricts actual disclosure in an administrative or judicial tax proceeding of a third party's return or return information as to a third party. Accordingly--and logically--access by Justice Department attorneys and U.S. attorneys to returns and return information in preparation for tax litigation should be limited in a similar fashion. These attorneys would have access, of course, to returns of, and return information regarding, a taxpayer who is or may be a party to litigation. In the case of a third party, returns and return information would be made available only if the third party consents or if such returns and return information have or may have a bearing on the outcome of the possible or actual litigation for particular reasons specified by the statute.

3. Federal Non-Tax Law Administration

By regulation based upon an Executive order, any Federal department or agency may, upon request and subject to the approval of the Secretary or his delegate, inspect tax returns and return information in connection with a matter officially before that department or agency.

This access to tax returns and return information has resulted in extensive disclosure of tax returns and return information for use in a variety of Federal activities. While access to tax returns is undoubtedly useful, and perhaps essential, to the proper functioning of some Federal departments and agencies, the volume of data and other information obtainable has reached such proportions as to prompt legitimate concern over the ability to maintain the appropriate degree of confidentiality.

Because of the obviously demonstrable need of the Bureau of the Census and the Bureau of Economic Analysis of the Department of Commerce for returns and return information for research and for statistical purposes, the legislative proposal would make returns and return information available for such purposes upon request by the Secretary of Commerce. No statistical study could be made public, however, if it in any way identified a particular taxpayer or could be so used. Likewise, information taken from corporate income tax returns would be made available to the Federal Trade Commission for purposes of its Quarterly Financial Reporting Program. Like Commerce, however, no information so furnished to the FTC could be made public in a form which identified a particular taxpayer. Because of the close relationship between the collection of Social Security taxes and administration of the Social Security Act by the Department of Health, Education, and Welfare, the legislative proposal would continue existing HEW access to returns and return information for this purpose; and access would also be extended to the Labor Department and the Pension Benefit Guaranty Corporation for purposes of administering the Employee Retirement Income Security Act.

In the case of other Federal departments and agencies, access to returns and return information in something other than statistical form would be limited to returns and return information which, for particular reasons specified by statute, have or may have a direct bearing upon the outcome of an administrative or judicial proceeding (or investigation leading to such a proceeding) in a matter relating to the enforcement of a Federal statute. Further, such access would be specifically conditioned on a finding by the Secretary or his delegate that the requested information could not reasonably be obtained from another source. Because the actual use of returns and return information in such a proceeding is restricted as described below, the initial access by the Federal department or agency for purposes of preparing for a proceeding is restricted in a similar fashion. This pattern thus corresponds generally to that proposed for disclosure to Justice Department attorneys and U.S. attorneys in tax matters which has just been described. It is further provided that the Secretary or his delegate may withhold requested returns and return information to the extent that he finds that disclosure would seriously impair Federal tax law administration. In the event that such a determination were made or if the Secretary or his delegate determined that the requested information could reasonably be obtained from another source, the proposed statute calls for a consultation on the matter between the head of the requesting Federal department or agency and the Secretary of the Treasury. If, after such consultation, the issue of disclosure has not been resolved, a final determination would be made by the President or his delegate.

Because a number of Federal departments and agencies, as well as other persons, may need tax return information in statistical form for various purposes, new section 6108 would authorize the Commissioner to provide statistical studies upon request, provided such statistics did not reveal, directly or indirectly, any taxpayer's identity. Further, a proposed amendment to section 7513 would authorize the Commissioner to contract with any Federal agency, including the requesting agency, to prepare the statistical study if the Internal Revenue Service were unable to do the work itself.

4. State and Local Tax Law Administration

Under section 6103(b) of existing law, income tax returns and income tax return information are, upon the written request of a State governor, open to inspection by any official, body, or commission lawfully charged with the administration of State tax laws for the purpose of such administration. Further, section 6103(b) authorizes the governor to direct that tax returns and return information be furnished to local taxing authorities for use in administering local tax laws.

Tax returns and return information which are supplied to tax officials at, say, a county or city level may not be invariably subject to appropriate safeguards on confidentiality which the Service has the right to expect and a duty to protect. Likewise, political considerations may produce unwarranted interest in tax information at even higher levels for nontax purposes. The legislative proposal would limit access to tax returns and return information to a State body, agency, or commission lawfully charged with State tax law administration and only for purposes of such administration. It is further provided that returns and return information would be available to State tax officials only to the extent that the Secretary or his delegate does not determine that disclosure would seriously impair Federal tax law administration.

5. Judicial and Administrative Tax Proceedings

Under existing regulations, tax returns and return information are available upon request by attorneys of the Justice Department and U.S. attorneys for use in any Federal or State tax litigation if the Federal Government is interested in the result. This broad right of access can result in seriously breaching the confidentiality of tax returns and return information relating to taxpayers who are not parties to the litigation. This can come about through the introduction in evidence of third party returns and return information where such returns or information may be considered relevant in some way to the outcome of the litigation.

For this reason, the legislative proposal imposes strict conditions upon the use of third party returns and

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eturn information in Federal tax litigation where the hird party does not consent to such use. Essentially, he proposal would restrict the use of third party returns nd return information to those instances where the return r return information has or may have a direct bearing on he outcome of the litigation for reasons specified by the roposal, and then only to the extent of such bearing. dditionally, third party returns and return information a) could be used to impeach the testimony of the third arty if he were a witness in the proceeding and (b) could e disclosed to the extent required by the Constitution or, n a criminal proceeding, 18 U.S.C. 3500 or Rule 16 of the ederal Rules of Criminal Procedure. Even if a third arty's return and return information could otherwise be isclosed by application of these rules, other than those pplicable to disclosures pursuant to court order or re- uired by the Constitution, they could not be used if the ecretary or his delegate determined that disclosure would eriously impair Federal tax law administration. Once gain, any such determination would be subject to the pro- edure described above calling for consultation between he Attorney General and the Secretary of the Treasury ith a final determination to be made, if necessary, by he President or his delegate.

It should be noted that the rules applicable to dis- losures in actual tax litigation are more strict than hose applicable to disclosures to Justice Department ttorneys and U.S. attorneys for purposes of preparing or such litigation. The proposal would impose standards f direct bearing on the use of third party tax information n tax litigation whereas this requirement of direct bearing s not imposed on initial access for purposes of an investi- ation leading to, or preparation for, tax litigation. The eason for this difference is that when the Justice Depart- ent represents the interests of the Internal Revenue ervice in tax litigation, it should not be unduly restricted n developing its case and should properly have reasonable in-house access to tax information which may be necessary for this purpose. The legislative proposal thus draws a distinction between this in-house access and actual introduction in evidence, and consequent publicity, of tax information, particularly with respect to third parties who are not directly involved in the litigation.

6. Judicial and Administrative Non-Tax Proceedings

Here again, present regulations effectively provide that the Department of Justice may, upon request, use third party returns and return information in non-tax litigation where the Federal Government is interested in the result.

The necessity for protecting any taxpayer's right to privacy with respect to his tax affairs is even more acute in this area than in that of tax litigation since Federal tax administration is in no way involved in the litigation. Accordingly, the proposal would limit the use of any taxpayer's returns and return information in non-tax judicial and administrative proceedings to a Federal proceeding to which the United States is a party and then only if the taxpayer himself is a party to the proceeding or consents to the use or if the information has or may have a direct bearing upon the outcome of the proceeding because of a transactional relationship between the taxpayer and a party to the proceeding. Disclosure would in all events, however, be conditioned on a finding by the Secretary or his delegate that the same information could not reasonably be obtained from another source. As in tax litigation, a return or return information could also be used in the litigation under certain circumstances to impeach a witness and to the extent required by the Constitution, 18 U.S.C. 3500, or Rule 16 of the Federal Rules of Criminal Procedure. Once again, the returns and return information could be withheld, subject to the procedure outlined above, upon a finding by the Secretary or his delegate that Federal tax law administration would be seriously impaired.

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7. Prospective Jurors and Possible Criminal Activities

Under existing regulations, attorneys of the Department of Justice cannot have access to tax returns for purposes of examining prospective jurors but are authorized to determine from the Internal Revenue Service whether or not a prospective juror has been under tax investigation. The statutory proposal would codify these limited regulatory rules. Any broader access to tax information regarding prospective jurors would appear to go beyond the limits of basic taxpayer privacy.

In the interest of serving the basic ends of criminal justice, the proposal would direct the Secretary or his delegate to notify the Attorney General as to possible violations of Federal criminal laws which come to his attention as the result of his own access to return information. The proposal would also give the Secretary or his delegate discretionary authority to so notify State or local law enforcement agencies of a possible violation of State criminal laws.

8. Strike Force Participation

The proposal would specifically authorize disclosure of certain return information by Treasury Department employees who participate jointly with another Federal agency n an enforcement activity relating to Federal criminal aws. This proposal is principally directed to Service articipation with the Department of Justice in the Federal rganized Crime Strike Force program. The statute would nly permit disclosure by participating Service employees o other Federal employees involved in the enforcement rogram of return information received or developed from ources other than the taxpayer himself and then only to he extent required by the investigation.

9. Congressional Committees

Section 6103(d) authorizes unlimited disclosure of eturns and return information to the three tax writing

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committees of Congress and to any select committee authorized by Congressional resolution to inspect returns and return information. Returns and return information may be furnished to any such committee sitting in executive session. Numerous Congressional committees other than those referred to in section 6103(d) have traditionally sought and obtained returns and return information through specific Executive orders.

The legislative proposal would tighten existing law in some respects and broaden it in others. The three tax writing committees of Congress would continue to have access to any tax returns and return information upon request, and this right would be specifically extended to the Chief of Staff of the Joint Committee on Internal Revenue Taxation. Any other Congressional committee's access to tax returns and return information, however, would have to be by way of a resolution of the appropriate house of Congress. Further, returns and return information furnished to any Congressional committee would have to be furnished in closed executive session.

10. The President

The legislative proposal grants to the President specific authority to see returns and return information pursuant to his personal written request and grants to him the further authority to name an employee or employees of the White House Office to whom such returns and return information are to be furnished. For this purpose, the proposal defines an employee of the White House Office as one who holds a Presidential commission and whose annual rate of basic pay equals or exceeds that prescribed by 5 U.S.C. 5316. No such employee of the White House Office to whom tax information is furnished at the President's request would be permitted to disclose the information to anyone other than the President without the President's written direction. Any Presidential request would have to identify the particular taxpayer whose return was to be inspected, the kind of return involved, and the taxable period covered by the return. These proposed statutory restrictions upon White House access to returns and return information correspond to those reflected in Executive Order 11805 dated September 20, 1974.

11. Persons With a Material Interest

Section 6103(c) authorizes the inspection of a corporation's income tax returns by any holder of 1% or more of the corporation's stock. In an attempt to head off possible mischief, the regulations deny this right to a shareholder who acquired his stock interest for that purpose. Income, estate, gift, unemployment, and certain excise tax returns are presently open to the filing taxpayer, the beneficiary of a trust, a trustee in bankruptcy, and a member of a partnership. Income tax returns of a deceased taxpayer are also open to the representative of his estate and, along with estate and gift tax returns, to certain other persons upon a satisfactory showing of a material interest.

The proposal deletes the "1% stockholder" rule of section 6103(c) because the rule encourages inherently improper and severely damaging disclosures and because SEC rules now require much of the information contained in many corporate returns to be made public. The regulatory rules regarding disclosure to persons with a material interest have been largely retained but tightened to prohibit disclosure of tax return information where disclosure would seriously impair Federal tax law administration.

Section 6103(c)(6) of the Administration taxpayer privacy proposal introduced in the 93rd Congress as S. 4116 and H.R. 17285 would have provided that a taxpayer's own tax return information would be open to him unless the Secretary or his delegate determined that such disclosure would seriously impair the administration of

Federal tax laws. Because this "impairment" standard may not be compatible with Privacy Act standards, the present legislative proposal would provide a second standard for disclosure which could override the "impairment" test in an appropriate case. This second standard would compel disclosure of return information, notwithstanding impairment of Federal tax law administration, where required by 5 USC 552a(d) or any other provision of Federal law.

12. <u>Contractors</u>

Under the authority of section 7513, the Secretary or his delegate may contract for the photographic reproduction of tax returns and return information, and disclosure is, of course, authorized for this purpose. At the same time, disclosure must necessarily be made to certain other contractors and their employees who furnish property and services in connection with the general administration of the tax laws by the Treasury Department and the Internal Revenue Service.

The legislative proposal deals with this problem under current law by specifically authorizing the disclosure of tax returns and return information to any person to the extent necessary in, or to facilitate, the contractual procurement of property or services by the Treasury Department or the Service for tax administration purposes. At the same time, however, the proposal would amend section 7213 to extend to these persons the criminal penalties provided for unauthorized disclosure.

13. <u>Misstatements of Fact</u>

Existing law does not provide clear authority permitting the Secretary or his delegate to disclose return information with respect to a particular taxpayer in order to correct a misstatement of fact published or disclosed with respect to that taxpayer's return or his dealing with the Service. The proposal would permit the Secretary or his delegate to disclose tax return information, or any other information, with respect to that taxpayer under these circumstances to the extent necessary to correct his public misstatement in the interests of Federal tax administration.

14. Tax Checks

Although there is no specific authorizing provision under existing law, tax check information on prospective appointees to, and employees of, the Federal Government is presently being furnished upon request. Occasionally, such information is also furnished to a State Government in connection with a prospective appointee to State office.

The legislative proposal restricts tax checks to prospective appointees to the Executive or Judicial branch of the Federal Government, and then only upon written request of the White House, a cabinet officer, or the head of a Federal establishment. The information to be disclosed in a requested tax check is then limited to whether the individual has filed income tax returns for the last 3 years, has failed in the current year or preceding 3 years to pay any tax within 10 days after notice and demand or has been assessed a negligence penalty during this period, has been under any criminal tax investigation and the result of any such investigation, and has been assessed a civil penalty for fraud or negligence.

15. Taxes Imposed by Subtitle E and Chapter 35

Existing law affords no specific statutory protection to returns and return information relating to alcohol, tobacco, and firearms taxes imposed by subtitle E of the Internal Revenue Code. In connection with its own law enforcement programs, the Department of Justice has traditionally had access to such returns and return information. Accordingly, the proposal would grant specific statutory access to these returns and return information by a Federal officer or employee whose official duties require such access, provided that the conditions, if any, imposed upon such access by the Privacy Act have first been met.

Pub. Law 93-499 (93rd Cong., 2d Sess.) added section 4424 to the Internal Revenue Code which would prohibit, among other things, the disclosure of returns and return information relating to wagering taxes imposed by chapter 35 except for purposes of enforcing title 26 or to Congressional committees as provided by section 6103(d) of existing law. The proposal incorporates the principle of Pub. Law 93-499 but provides additionally for disclosure to the taxpayer himself or his designee, to certain others who can demonstrate a material interest which would be affected by such information, and to the President or certain employees of the White House Office under the conditions outlined in Paragraph 10 above. To the extent that the proposal governs the disclosure of wagering tax information, section 4424 would be repealed.

16. Waivers of Confidentiality

No authority presently exists which would permit the Secretary or his delegate to disclose returns or return information with respect to a taxpayer to someone to whom the taxpayer himself wanted his return or return information disclosed. The legislative proposal would permit disclosure in the discretion of the Secretary or his delegate if requested by the taxpayer involved but then only to the extent that such disclosure could have otherwise been made directly to the taxpayer himself.

17. Section 6103(f)

The required disclosure to any person of information as to whether another taxpayer has filed an income tax return for a particular year is plainly contrary to the

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most basic principle of taxpayer privacy. For this reason, the proposal would delete present section 6103(f) of the Code.

18. Records of Inspection and Disclosure

Pursuant to the authority of section 6103(d) of existing law, the Internal Revenue Service furnishes to the Joint Committee on Internal Revenue Taxation a semiannual report of tax returns and tax return information disclosed as provided by section 6103 and the regulations thereunder. The legislative proposal would codify this existing practice and would specifically permit inspection of the Service's records of disclosures by individual taxpayers to the extent required by the Privacy Act. The proposal would, however, effectively modify the Privacy Act by specifically excluding from record-keeping requirements under either section 6103 or the Privacy Act disclosures made under proposed section 6103(f), (h)(1), (h)(2), (h)(3), (h)(4), (h)(5), (i)(1), or (j).

Proposed section 6103(f)(1) deals with disclosures within the Treasury Department and should fit the specific exception of 5 USC 552a(c)(1) as an intra-agency disclosure under 5 USC 552a(b)(1). When disclosures are made to the Tax Division of the Department of Justice under proposed section 6103(f)(2), the Tax Division is preparing to represent the interests of the Internal Revenue Service in litigation and is acting as an arm of the Service. When so acting as the Service's attorney, the philosophy of the Privacy Act should permit an exception for keeping records of disclosures made essentially by a client to its attorney.

Disclosures under most of the paragraphs of proposed section 6103(h) would either be impossible to keep records of (i.e., section 6103(h)(1)) or are in the nature of public disclosures (i.e., section 6103(h)(2), (3), (4), and (5)). The same public disclosure idea is present in proposed section 6103(i)(1), and there is some doubt that taxpayer identity information under section 6103(j) is a record which the Privacy Act was ever intended to cover. This is based on Congressman Moorhead's floor statement that 5 USC 552a(n) "does not ban the release of such [name-and-address] lists where either sale or rental is not involved."

19. Judicial Review

The proposal provides that the exclusive remedy for an alleged violation of section 6103 shall be a proceeding under section 7213 or, where applicable, 5 USC 552a(g) or (i), as enacted by the Privacy Act. Judicial review of any determination permitted or provided by statute to disclose or not to disclose a return or return information is thus limited to a proceeding under section 7213 or 5 USC 552a(g) or (i).

20. Penalties for Unauthorized Disclosure

Section 7213 makes it unlawful for any Federal or State official or employee to make a disclosure of income tax return information which the Code does not authorize and makes it unlawful for any person to print or publish any such information except as authorized by the Code.

The legislative proposal expands the scope of section 7213 in four significant respects. First, section 7213 would apply to unauthorized disclosure of any tax returns or return information. Second, the criminal sanctions are extended to former officials or employees of the Federal or a State Government. Third, the criminal sanctions are extended to private contractors and their officers and employees (or former officers and employees) who make unauthorized disclosures of returns and return information to which they have been given statutory access. Fourth, the maximum monetary penalty for an unauthorized disclosure imposed by section 7213 of existing law would be increased to $5,000 from $1,000 to correspond to the monetary penalty imposed upon an unauthorized disclosure of records under the Privacy Act.

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21. Possible Use of Judicial Procedures of Privacy Act to Determine Issues of Federal Tax Liability

Subtitle F of the Internal Revenue Code provides comprehensive rules for the administrative and judicial determination of Federal tax liability. These rules provide the taxpayer a choice of three Federal tribunals, i.e., a Federal district court, the Court of Claims, or the Tax Court, in which to litigate questions of his Federal tax liability. Further, the taxpayer can invoke elaborate rules for attempted resolution of a tax dispute within the Internal Revenue Service, involving administrative appeals at several levels.

The Privacy Act authorizes a judicial remedy to compel the requested correction of an individual's "record." See 5 USC 552a(d) and (g) (1) (A). It is believed that it was clearly not the intention of the draftsmen of the Act to thereby provide a new route for administrative and judicial resolution of Federal tax disputes. Nevertheless, to avoid any possibility of confusion or controversy regarding the Act's availability in resolving such disputes, the legislative proposal would add to section 7852 of the Code a new subsection (e), providing that the record-correction machinery of the Privacy Act could not be applied to the determination of any matter to which the provisions of subtitle F apply.

9/24/75

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A BILL

TO amend the Internal Revenue Code of 1954 to restrict the authority for inspection of returns and the disclosure of information with respect thereto, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. AMENDMENT OF 1954 CODE.

Whenever in this Act an amendment is expressed in terms of an amendment to a section or other provision, the reference is to a section or other provision of the Internal Revenue Code of 1954.

SEC. 2. CONFIDENTIALITY AND DISCLOSURE OF RETURS AND RETURN INFORMATION.

Section 6103 (relating to publicity of returns and disclosure of information as to persons filing income tax returns) is amended to read as follows:

"SEC. 6103. CONFIDENTIALITY AND DISCLOSURE OF RETURNS AND RETURN INFORMATION.

"(a) General Rule.--

"(1) Confidentiality and disclosure.--Returns and return information shall be confidential and no person described in section 7213 (a) shall permit inspection of or disclose returns or return information, nor shall a court, administrative body, or other person order such inspection or disclosure, except to such persons and for such purposes as are authorized by this title.

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"(2) Definitions.--For purposes of this section--

"(A) Return.--The term 'return' means any tax or information return or declaration of estimated tax required by, or provided for or permitted under, the provisions of this title filed by, on behalf of, or with respect to any person with the Secretary or his delegate, and any amendment or supplement thereto or claim for refund, including supporting schedules, attachments, or lists which are designed to be supplemental to, or become part of, the return so filed.

"(B) Return information.--The term 'return information' means--

"(i) any data including a taxpayer's identity, the nature, source, or amount of his income, payments, receipts, deductions, exemptions, credits, assets, liabilities, net worth, tax liability, tax withheld, deficiencies, overassessments, or tax payments, whether the taxpayer's return was, is being, or will be examined or subject to other investigation or processing, or any particular of any data, in whatever form (whether as a report, investigative file, memorandum or other document, including a registration statement described in section 6057) or manner received by, recorded by, prepared by, furnished

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to, or collected by the Secretary or his delegate with respect to a return as described in subparagraph (A) or with respect to the existence, or possible existence, of liability (or the amount thereof) of any person under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense, but, for purposes of clause (i), not including any such data (or particular thereof) included in a document (or request or correspondence for or with respect thereto) described in clause (ii) (without regard to the date limitation therein) or (iii);

"(ii) any letter, advice, or other document issued by the Secretary or his delegate pursuant to a request made therefor on or before ,
by, or on behalf of, any person other than an officer or employee of the Department of the Treasury acting in his official capacity, and any such request, or any correspondence for or with respect to such document or any portion thereof, which is intended to be used to determine or affect the application of any rule contained in this title, related law, or tax treaty to the facts and circumstances of a particular transaction, arrangement, or return filed or to be filed by any person to whom such document is furnished;

"(iii) any memorandum, advice, or other document issued by the Secretary or his delegate pursuant to a request by, or on behalf of, any officer or employee of the Department of the Treasury acting in his official capacity, and any such request, or any correspondence for or with respect to such document or any portion thereof, which is intended to be used by him to determine or affect the application of any rule contained in this title, related law, or tax treaty to the facts and circumstances of a particular transaction, arrangement, or return filed or to be filed by any person to whom such document relates or may relate; and

"(iv) any other data of the type described in clause (i) which is furnished to the Secretary or his delegate in connection with tax administration and accepted as confidential pursuant to regulations prescribed by the Secretary or his delegate,

whether or not such data (or particular thereof) described in clause (i) or such document (or request or correspondence for or with respect thereto) described in clause (ii) or (iii) may be in any manner inspected or disclosed under the provisions of section 6104 or any other provision of this title.

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"(C) Tax administration.--The term 'tax administration'--

(i) means the administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws or related statutes (or equivalent laws and statutes of a State) and tax conventions to which the United States is a party and the development and formulation of Federal tax policy relating to existing or proposed internal revenue laws, related statutes, and tax treaties, and

(ii) includes assessment, collection, enforcement, litigation, publication, and statistical gathering functions under such laws, statutes, or conventions.

"(D) State.--The term 'State' means the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, possessions of the United States, and other places under the sovereignty of the United States.

"(E) Taxpayer identity.--The term 'taxpayer identity' means the name of a person with respect to whom a return is filed, his mailing address, and his taxpayer identifying number (as described in section 6109) or a combination thereof.

"(F) Inspection.--The terms 'inspected' and 'inspection' mean the visual examination of a return or return information.

"(G) Disclosure.--The term 'disclosure' means the making known to any person in any manner whatever a return or return information.

"(H) Employee of the White House Office.--For purposes of this section, the term 'employee of the White House Office' means only an employee of the White House Office who is the holder of a Presidential commission and whose annual rate of basic pay equals or exceeds the annual rate of basic pay prescribed by section 5316 of title 5, United States Code.

"(b) Disclosure to State Tax Officials.--Returns and return information, except with respect to taxes imposed by chapter 35 or 53, shall be open to inspection by or disclosure to any State agency, body, or commission lawfully charged with tax administration for the purpose of, and only to the extent necessary in, the administration of a specific tax law of such State and shall be used only for such tax administration. The inspection shall be permitted, or the disclosure made, only upon written request of the head of such agency, body, or commission, designating the representatives of such agency, body, or commission to make the inspection or to receive the return or return information on behalf of such agency, body, or commission. However, such return information shall not be disclosed to such agency, body, or commission to the extent that the Secretary or his delegate determines that such disclosure would seriously impair the administration of Federal tax laws.

"(c) Disclosure to Persons Having Material Interest.--

"(1) The return of a person with respect to whom the return is filed shall, upon written request, be open to inspection by or disclosure to--

"(A) in the case of the return of an individual, that individual;

"(B) in the case of an income tax return filed jointly, either of the individuals with respect to whom the return is filed;

"(C) in the case of the return of a partnership, any person who was a member of such partnership during any part of the period covered by the return;

"(D) in the case of the return of a corporation--

"(i) any person designed by resolution of its board of directors, or other similar governing body,

"(ii) any officer or employee of such corporation upon written request signed by any principal officer and attested by the secretary or other officer,

"(iii) if the corporation was an electing small business corporation under subchapter S of chapter 1, any person who was a shareholder

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during any part of the period covered by such return during which an election was in effect, or

"(iv) if the corporation has been dissolved, any person authorized by applicable State law to act for the corporation or any person who the Secretary or his delegate finds to have a material interest which will be affected by information contained therein;

"(E) in the case of the return of an estate--

"(i) the administrator, executor, or trustee of such estate, and

"(ii) any heir at law, next of kin, or beneficiary under the will, of the decedent but only if the Secretary or his delegate finds that such heir at law, next of kin, or beneficiary has a material interest which will be affected by information contained therein; and

"(F) In the case of the return of a trust--

"~~(i)~~ the trustee or trustees, jointly or separately, and

"(ii) any beneficiary of such trust but only if the Secretary or his delegate finds that such beneficiary has a material interest which will be affected by information contained therein.

"(2) If an individual described in paragraph (1) is legally incompetent, the applicable return shall be open to inspection by or disclosure to the committee, trustee, or guardian of his estate.

"(3) If an individual described in paragraph (1), other than an individual described in subparagraph (E) (i) or (F) (i) of such paragraph, has died, the applicable return may be inspected by or disclosed to--

"(A) the administrator, executor, or trustee of his estate; and

"(B) any heir at law, next of kin, or beneficiary under the will, of such decedent, or a donee of property, but only if the Secretary or his delegate finds that such heir at law, next of kin, beneficiary, or donee has a material interest which will be affected by information contained therein.

"(4) If substantially all of the property of the person with respect to whom the return is filed is in the hands of a trustee in bankruptcy or receiver, such return or returns for prior years of such person shall be open to inspection by or disclosure to such trustee or receiver, but only if the Secretary or his delegate finds that such receiver or trustee has a material interest which will be affected by information contained therein.

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"(5) Any return to which this subsection applies shall also be open to inspection by or disclosure to the attorney in fact, duly authorized in writing, of any of the persons described in paragraph (1), (2), (3), or (4) to inspect the return or receive the information on his behalf, subject to the conditions provided for therein.

"(6) Return information with respect to any return shall also be open to disclosure to any person authorized by this subsection to inspect such return--

"(A) to the extent that the Secretary or his delegate does not determine that such disclosure would seriously impair the administration of Federal tax laws, or

"(B) notwithstanding a determination described in subparagraph (A), to the extent required by section 552a(d) of title 5, United States Code, or any other provision of Federal law.

"(d) Disclosure to Committees of Congress.--

"(1) Committee on Ways and Means, Committee on Finance, and Joint Committee on Internal Revenue Taxation.--Upon written request from the Chairman of the Committee on Ways and Means of the House of Representatives, the Chairman of the Committee on Finance of the Senate, or the Chairman of the Joint Committee on Internal Revenue Taxation, the Secretary or his delegate shall furnish

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such committee sitting in closed executive session with any return or return information.

"(2) Chief of Staff of Joint Committee on Internal Revenue Taxation.--Upon written request from the Chief of Staff of the Joint Committee on Internal Revenue Taxation, the Secretary or his delegate shall furnish him with any return or return information. Such Chief of Staff shall have the right to submit any relevant or useful information thus obtained to any committee described in paragraph (1) sitting in closed executive session.

"(3) Other committees.--Upon written request from the chairman of a committee of the Senate or House (other than a committee specified in paragraph (1)) specially authorized to inspect returns or return information by a resolution of the Senate or House or, in the case of a joint committee (other than the committee specified in paragraph (1)), by concurrent resolution, the Secretary or his delegate shall furnish such committee sitting in closed executive session with any return or return information which such resolution so authorizes the committee to inspect.

"(4) Agents of committees and submission of information to Senate or House.--Any committee described in paragraph (1) or (3) or the Chief of Staff of the Joint Committee on Internal Revenue Taxation shall have the right,

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acting directly, or by or through such examiners or agents as the Chairman of such committee or such Chief of Staff may designate or appoint in writing, to inspect returns and return information at such time and in such manner as he may determine. Any relevant or useful information obtained by or on behalf of such committee pursuant to the provisions of this subsection may be submitted by the committee to the Senate or the House, or to both the Senate and the House, as the case may be. The Joint Committee on Internal Revenue Taxation may also submit such information to any committee described in paragraph (1) sitting in closed executive session.

"(e) Disclosure to President and Certain Other Persons.--Upon written request from the President signed by him personally, the Secretary or his delegate shall furnish to him, or to such employee or employees of the White House Office as the President may designate by name in such request, a return or return information with respect to any tax imposed by this title upon a taxpayer named in such request. Any such request shall state--

"(1) the name and address of the taxpayer whose return is to be inspected,

"(2) the kind of return or returns which are to be inspected, and

"(3) the taxable period or periods covered by such return or returns.

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No such employee of the White House Office shall disclose any return or return information so furnished to him pursuant to the provisions of this subsection to any person other than the President, without the written direction of the President.

"(f) Disclosure to Certain Federal Officers and Employees for Purposes of Tax Administration, etc. --

"(1) Returns and return information shall, without written request, be open to inspection by or disclosure to officers and employees of the Department of the Treasury whose official duties require such inspection or disclosure.

"(2) A return or return information with respect to any tax imposed by this title upon a taxpayer shall, without written request, be open to inspection by or disclosure to attorneys of the Department of Justice (including United States attorneys) personally and directly engaged in, and solely for their use in, preparation for any proceeding (or investigation which may result in a proceeding) before a Federal grand jury or any Federal or State court in a matter involving tax administration but only--

"(A) if the taxpayer is or may be a party to such proceeding;

"(B) if the taxpayer consents; or

"(C) if such return or return information has or may have a bearng on the outcome of such proceeding because--

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"(i) treatment of an item with respect to a person who is or may be a party to such proceeding is or may be determined, in whole or in part, by reference to the treatment of an item on such return;

"(ii) such return or return information relates or may relate to an issue in the proceeding; or

"(iii) the liability of the party under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense, which is or may be the subject of the proceeding is or may be determined, in whole or in part, by reference to such return or return information.

"(g) Disclosure to Federal Officers and Employees for Purposes of Federal Law Administration (Other Than Tax Laws). --

"(1) Upon request in writing by the Secretary of Commerce, the Secretary or his delegate shall furnish any return or return information reflected on such return to officers or employees of the Bureau of the Census or the Bureau of Economic Analysis (or successor bureaus or establishments thereof) of the Department of Commerce for the structuring of censuses and the national economic accounts and related statistical activities to be conducted or prepared by such bureau as authorized by law, provided that no such officer or employee shall publish or otherwise disclose

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any return or return information except in statistical form which cannot be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

"(2) Upon request in writing by the Chairman of the Federal Trade Commission, the Secretary or his delegate shall furnish return information reflected on any return of a corporation with respect to the tax imposed by chapter 1 to officers or employees of the Division of Financial Statistics of the Bureau of Economics (or successor divisions, bureaus, or establishments thereof) of such commission for the purpose of, but only to the extent necessary in, administration by such division of economic surveys of corporations as authorized by law, provided that no such officer or employee shall publish or otherwise disclose any such return information to any person (other than officers or employees of the corporation with respect to which such return was filed) except in statistical form which cannot be associated with, or otherwise identify, a particular taxpayer.

"(3) A return or return information with respect to any tax imposed by this title upon a taxpayer shall, upon request, be open to officers or employees of a department, agency, or other executive establishment of the Federal Government personally and directly engaged in, and solely for their use in, preparation for any administrative or judicial proceeding (or investigation which may result in such a proceeding) pertaining to the enforcement of a specifically designated Federal

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statute (not involving tax administration) to which the United States (or a department, agency, or other executive establishment of the Federal Government) is or may be a party before any Federal grand jury, court, department, agency, or other executive establishment to the extent the Secretary or his delegate determines that such information cannot reasonably be obtained from any other source but only--

"(A) if the taxpayer is or may be a party to such proceeding;

"(B) if the taxpayer consents; or

"(C) if such return or return information has or may have a direct bearing on the outcome of such proceeding because--

"(i) there was or may have been a transactional relationship between a person who is or may be a party to the proceeding and the taxpayer,

"(ii) such person is or may be a successor in interest of the taxpayer, or

"(iii) such return or return information will or may corroborate or contradict other information obtained in such proceeding or investigation.

The inspection or disclosure shall be permitted only upon written request setting forth the reasons for such request, the authority under which the proceeding or investigation is being conducted, and the particular subparagraph of this paragraph upon which the request is based and signed by the head of such department, agency, or establishment or, in the case of the Department of Justice, signed by the Attorney General, Deputy Attorney General, or an Assistant Attorney General, or by the Director of the Federal Bureau of Investigation. However, such return or return information shall not be disclosed to the extent that the Secretary or his delegate determines that such disclosure would seriously impair the administration of Federal tax laws. In the event that the Secretary or his delegate makes such a determination or determines that the requested information can reasonably be obtained from another source, the Secretary shall consult with the head of the requesting department, agency, or establishment, or, in the case of a request by the Department of Justice, with the Attorney General. If, after such consultation, the issue has not been resolved, a final determination shall be made by the President or his delegate.

"(4) An officer or employee of the Department of the Treasury participating with officers or employees of another department, agency, or other executive establishment of the Federal Government in a joint investigation pertaining to the enforcement of Federal criminal laws may, to the extent required by such investigation, disclose to such other officers

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or employees return information with respect to a tax imposed by this title upon a taxpayer other than return information furnished to the Secretary or his delegate by such taxpayer.

"(h) Disclosure of Certain Returns and Return Information for Tax Administration Purposes. --

"(1) Disclosure by internal revenue officials and employees for investigative purposes. --An internal revenue official or employee may, in connection with his official duties with respect to a tax imposed by this title, disclose return information to the extent that such disclosure is necessary in arriving at a correct determination of tax, liability for tax, or the amount to be collected, or otherwise in the enforcement of any provision of this title.

"(2) Disclosure of accepted offers-in-compromise. --Return information shall be disclosed to members of the general public to the extent necessary to permit inspection of any accepted offer-in-compromise under section 7122, relative to the liability for a tax imposed by this title.

"(3) Disclosure of amount of outstanding lien. --If a notice of lien has been filed pursuant to section 6323 (f) or corresponding provision of prior internal revenue laws, the amount of the outstanding obligation secured by such lien is authorized to be

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disclosed as a matter of public record and may be disclosed to any person who furnishes satisfactory written evidence that he has a right in the property subject to such lien or intends to obtain a right in such property.

"(4) Disclosure in judicial and administrative tax proceedings.--A return or return information with respect to any tax imposed by this title upon a taxpayer may be disclosed in a Federal or State judicial or administrative proceeding pertaining to tax administration before any Federal or State grand jury, court, department, or executive establishment, but only--

"(A) if the taxpayer is a party to such proceeding;

"(B) if the taxpayer consents;

"(C) if such return or return information has or may have a direct bearing on the outcome of such proceeding because--

"(i) treatment of an item with respect to a party to the proceeding is or may be determined, in whole or in part, by reference to the treatment of an item on such return,

"(ii) such return or return information relates or may relate to a transaction at issue in the proceeding, or

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"(iii) the liability of the party under this title for any tax, penalty, interest, fine, forfeiture, or other imposition, or offense which is the subject of the proceeding is or may be determined by reference to such return or return information;

"(D) to the extent necessary to impeach the testimony of the taxpayer if the taxpayer is a witness in the proceeding;

"(E) to the extent required by order of a court pursuant to section 3500 of title 18, United States Code, or rule 16 of the Federal Rules of Criminal Procedure, such court being authorized in the issuance of such order to give due consideration to Congressional policy favoring the confidentiality of returns and return information as set forth in this title; or

"(F) to the extent required by the Constitution of the United States.

However, such return or return information shall not be disclosed as provided in subparagraph (A), (B), (C), or (D) to the extent that the Secretary or his delegate determines that such disclosure would seriously impair the administration of Federal tax laws. In the event that the Secretary or his delegate makes such a determination with respect to disclosure

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in a judicial proceeding to which the United States is a party, the Secretary shall consult with the Attorney General. If, after such consultation, the issue has not been resolved, a final determination shall be made by the President or his delegate.

"(5) Disclosure of return information to correct misstatements of fact.--The Secretary or his delegate may, in his discretion, disclose such return information or any other information with respect to any specific taxpayer as he considers advisable for purposes of tax administration, and to the extent necessary, to correct a misstatement of fact published or disclosed with respect to such taxpayer's return or his dealing with the Internal Revenue Service.

"(6) Disclosure to competent authority under income tax convention.--A return or return information may be disclosed to a competent authority of a foreign government which has an income tax convention with the United States but only to the extent provided in, and subject to the terms and conditions of, such convention.

"(7) Federal and State agencies regulating tax return preparers.--The Secretary or his delegate may disclose to any Federal or State agency, body, or commission charged under the laws of the United States or any State or political

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subdivision of a State with licensing, registration, or regulation of tax return preparers (as defined in section 7701(a)(36)) --

"(A) taxpayer identity information with respect to any such tax return preparer, and

"(B) the fact of imposition on the tax return preparer of any penalty provided by section 7216.

"(i) Disclosure of Returns and Return Information for Purposes Other Than Tax Administration.--

"(1) Disclosure in nontax judicial and administrative proceedings.--A return or return information with respect to any tax imposed by this title upon a taxpayer may be disclosed in a judicial or administrative proceeding pertaining to a specifically designated Federal statute (not involving tax administration) to which the United States (or a department, agency, or other executive establishment of the Federal Government) is a party before any Federal grand jury, court, department, agency, or executive establishment to the extent the Secretary or his delegate determines that such information cannot reasonably be obtained from any other source but only--

"(A) if the taxpayer is a party to such proceeding;

"(B) if the taxpayer consents;

"(C) if such return or return information has or may have a direct bearing on the outcome of such proceeding because--

"(i) there was a transactional relationship between a party to the proceeding and the taxpayer, or

"(ii) such party is a successor in interest of the taxpayer;

"(D) to the extent necessary to impeach the testimony of the taxpayer if the taxpayer is a witness in the proceeding;

"(E) to the extent required by order of a court pursuant to section 3500 of title 18, United States Code, or rule 16 of the Federal Rules of Criminal Procedure, such court being authorized in the issuance of such order to give due consideration to Congressional policy favoring the confidentiality of returns and return information as set forth in this title; or

"(F) to the extent required by the Constitution of the United States.

However, such return or return information shall not be disclosed as provided in subparagraph (A), (B), (C), or (D) to the extent that the Secretary or his delegate determines that such

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disclosure would seriously impair the administration of Federal tax laws. In the event that the Secretary or his delegate makes such a determination or determines that the information can reasonably be obtained from another source, the Secretary shall consult with the Attorney General if the United States is a party to the proceeding or the Department of Justice represents a department, agency, or other executive establishment of the Federal Government which is a party to the proceeding, or with the head of such department, agency, or establishment if the Department of Justice does not so represent the department, agency, or establishment. If, after such consultation, the issue has not been resolved, a final determination shall be made by the President or his delegate.

"(2) Disclosure of certain returns and return information to Social Security Administration and Railroad Retirement Board.--The Secretary or his delegate is authorized to disclose returns and return information--

"(A) with respect to taxes imposed by chapters 2, 21, and 24, to the Social Security Administration for purposes of its administration of the Social Security Act;

"(B) with respect to a plan to which part I of subchapter D of chapter 1 applies, to the Social Security Administration for purposes of carrying out its responsibility under section 1131 of the Social Security Act; and

"(C) with respect to taxes imposed by chapter 22, to the Railroad Retirement Board for purposes of its administration of the Railroad Retirement Act.

"(3) Disclosure of returns and return information to the Department of Labor and Pension Benefit Guaranty Corporation. --The Secretary or his delegate is authorized to furnish returns and return information to the proper officers and employees of the Department of Labor and the Pension Benefit Guaranty Corporation for purposes of the administration of titles I and IV of the Employee Retirement Income Security Act.

"(4) Disclosure of return information as to Presidential appointees and certain other Federal Government appointees. --The Secretary or his delegate is authorized to disclose to a duly authorized representative of the Executive Office of the

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President or to the head of any department, agency, or other executive establishment of the Federal Government, upon written request of such representative or head, or to the Federal Bureau of Investigation on behalf of such representative or head, return information with respect to an individual who is designated as being under consideration for appointment to a position in the executive or judicial branch of the Federal Government. Such return information shall be limited to whether such an individual--

"(A) has filed returns with respect to the taxes imposed under chapter 1 for not more than the immediately preceding 3 years;

"(B) has failed to pay any tax within 10 days after notice and demand, or has been assessed any penalty under this title for negligence, in the current year or immediately preceding 3 years;

"(C) has been or is under investigation of possible criminal offenses under the internal revenue laws and the result of any such investigation; and

"(D) has been assessed any penalty under this title for fraud.

The official to whom such return information is disclosed is authorized to disclose such information to his superior officers.

"(5) Disclosure of returns and return information to Privacy Protection Study Committee.--The Secretary or his delegate is authorized, upon written request, to disclose returns and return information to the Privacy Protection Study Commission, or to such members, officers, or employees of such commission as may be named in such written request, to the extent, and for such purposes as may be, provided by Sec. 5 of the Privacy Act of 1974.

"(j) Disclosure of Taxpayer Identity Information.--The Secretary or his delegate is authorized, upon written request, to disclose taxpayer identity information to--

"(1) any Federal agency for purposes of assisting such agency in locating a person with respect to whom a return has been filed;

"(2) any agency, body, or commission described in subsection (b) for purposes of assisting such agency, body, or commission in locating a person with respect to whom such a return has been filed or communicating with such person to advise him that he may be entitled to a refund, or to assist such agency, body, or commission in its administration of the tax laws of such State;

"(3) the Department of Health, Education, and Welfare, or appropriate State and local welfare agencies reporting to such Department, for purposes of assisting Federal, State, and local welfare agencies in locating an individual described in section 610 of title 42, United States Code, with respect to whom a return has been filed; and

"(4) the press and other media for purposes of notifying persons entitled to tax refunds when the Secretary or his delegate, after reasonable effort and lapse of time, has been unable to locate such persons.

"(k) Disclosure of Returns and Return Information to Designee of Taxpayer.--The Secretary or his delegate may, subject to such requirements and conditions as may be prescribed by regulations, disclose the return of any taxpayer, or return information with respect to such taxpayer, to such person or persons as such taxpayer may designate in a written request or consent for or to such disclosure, or to any other person at the taxpayer's request to the extent necessary to comply with a request for information or assistance made by the taxpayer to such other person. However, return information shall be disclosed to such person or persons only to the extent that such return information would otherwise be disclosable directly to the taxpayer as provided by subsection (c) (6).

"(1) Certain Other Persons.--The Secretary or his delegate is authorized to disclose returns and return information to any person, including any person described in section 7513 (a), to the extent necessary in connection with contractual procurement of services or property for purposes of tax administration.

"(m) Disclosure of Return Information Concerning Prospective Jurors and Possible Criminal Activities.--

"(1) Prospective Jurors.--Return information with respect to any tax imposed by this title upon a taxpayer shall be disclosed to an attorney of the Department of Justice (including a United States attorney) in connection with a judicial proceeding described in subsection (h)(4) or (i)(1) to the extent necessary to answer an inquiry by such attorney as to whether a prospective juror has, or has not, been investigated by the Secretary or his delegate.

"(2) Possible Criminal Activities.--

"(A) Return information with respect to any tax imposed by this title upon a taxpayer shall, if such return information comes to the attention of the Secretary or his delegate, be disclosed by the Secretary or his delegate to the Attorney General or his delegate to the extent

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necessary to apprise the Attorney General or his delegate of activities which may constitute, or may have constituted, a violation of Federal criminal laws.

"(B) Return information with respect to any tax imposed by this title upon a taxpayer may, if such return information comes to the attention of the Secretary or his delegate, be disclosed, in the discretion of the Secretary or his delegate, to an officer of any department, agency, body, or commission of a State (or political subdivision of a State) charged with the enforcement of criminal laws of such State to the extent necessary to apprise such officer of activities which may constitute, or may have constituted, a violation of such criminal laws.

"(n) Disclosure of Returns and Return Information with Respect to Certain Taxes.--

"(1) Taxes Imposed by Subtitle E.--Returns and return information with respect to taxes imposed by subtitle E of this title (relating to taxes on alcohol, tobacco, and firearms) shall be open to inspection by or disclosure to officers and employees of a department, agency, or other executive establishment of the Federal Government whose official duties require such inspection or disclosure, provided that

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the conditions, if any, imposed upon such inspection or disclosure by section 552a(b) of title 5, United States Code, have first been met.

"(2) Taxes Imposed by Chapter 35.--Returns and return information with respect to taxes imposed by chapter 35 (relating to taxes on wagering) shall, notwithstanding any other provision of this section, be open to inspection by or disclosure to only such person or persons and for such purpose or purposes as are authorized by subsection (c), (d), (e), (f), (h), or (k).

"(o) Remedy for Unauthorized Disclosure. The exclusive remedy for an alleged violation of this section shall be a proceeding under section 7213 or, if applicable, section 552a(g) or (i) of title 5, United States Code, and no court shall have jurisdiction to review a determination that a return or return information is or is not open to inspection or disclosure or to determine the lawfulness of any such inspection or disclosure except in such a proceeding.

"(p) Procedures.--

"(1) Manner, time, and place of inspections.--Request for inspection and the disclosure of a return or return information shall be made in such manner and at such time and place as shall be prescribed by the Secretary or his delegate.

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"(2) (A) Reproduction of returns.--A reproduction or certified reproduction of a return shall, upon written request, be furnished to any person to whom disclosure of such return is authorized or who is authorized to inspect the return. A reasonable fee may be prescribed for furnishing such reproduction.

"(B) Disclosure of return information.--Return information disclosed to any person under the provisions of this subchapter may be provided in the form of written documents, reproductions of such documents, films or photoimpressions, or electronically-produced tapes, disks, or records, or by any other mode or means which, in the opinion of the Secretary or his delegate, are necessary or appropriate. A reasonable fee may be prescribed for disclosing such return information.

"(C) Use of reproductions.--Any reproduction of any return, document, or other matter made in accordance with this paragraph shall have the same legal status as the original; and any such reproduction shall, if properly authenticated, be admissible in evidence in any judicial or administrative proceeding as if it were the original, whether or not the original is in existence.

"(3) Records of inspection and disclosure.--Except as otherwise provided by this paragraph, the Secretary or his

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delegate shall maintain a record or accounting of all requests for inspection or disclosure of returns and return information, and of returns and return information inspected or disclosed, under this section. Notwithstanding the provisions of section 552a(c) of title 5, United States Code, the Secretary or his delegate shall not be required to maintain a record or accounting of requests for inspection or disclosure of returns and return information, or of returns and return information inspected or disclosed, under the authority of subsection (f), (h)(1), (h)(2), (h)(3), (h)(4), (h)(5), (i)(1), or (j). The record or accounting required to be maintained as provided by this paragraph shall be available for examination by the Joint Committee on Internal Revenue Taxation or the Chief of Staff of such Joint Committee. The Secretary or his delegate shall, at the request of such Chief of Staff, furnish to him a summary of such record or accounting at such time or times and in such form and containing such information as the Chief of Staff may designate in such a request. Such record or accounting shall also be available for examination by such person or persons as may be, but only to the extent, authorized to make such examination pursuant to the provisions of section 552a(c)(3) of title 5, United States Code.

"(4) Safeguards.--Any department, agency, or other executive establishment of the Federal Government described in subsection (f)(2) or (g), the commission described in subsection (i)(5), or any agency, body, or commission described in subsection (b) shall, as a condition for receiving returns or return information--

"(A) establish and maintain a secure area or place in which such returns or return information shall be stored;

"(B) restrict access to the returns or return information only to those persons whose duties or responsibilities require access and to whom disclosure may be made under the provisions of this title,

"(C) provide such other safeguards as are necessary or appropriate to protect the confidentiality of the returns or return information; and

"(D) when the returns or the return information provided by the Secretary or his delegate in the form of written documents, reproductions of such documents, films or photoimpressions, or electronically-produced tapes, disks or records has served its purpose--

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"(i) in the case of an agency, body, or commission described in subsection (b), return to the Secretary or his delegate such returns or return information (along with any copies made therefrom) or furnish a written report to the Secretary or his delegate that the returns or return information has been destroyed or otherwise made undisclosable in any manner whatever; and

"(ii) in the case of a department, agency, or establishment described in subsection (f) (2) or (g), or the commission described in subsection (i) (5), either--

"(a) return to the Secretary or his delegate such returns or return information (along with any copies made therefrom),

"(b) otherwise make such returns or return information undisclosable in any manner whatever, or

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"(c) to the extent not so returned or made undisclosable, ensure that the conditions of subparagraphs (A), (B), and (C) of this paragraph continue to be met with respect to such returns or return information,

except that the conditions of subparagraphs (A), (B), (C), and (D) shall cease to apply with respect to any return or return information if, and to the extent that, such return or return information is disclosed in the course, or made a part of the record, of any judicial or administrative proceeding described in subsection (h)(4) or (i)(1).

"(5) Regulations.--The Secretary or his delegate is authorized to prescribe such regulations as are necessary to carry out the provisions of this section."

SEC. 3. STATISTICAL PUBLICATIONS AND STUDIES

Section 6108 (relating to publication of statistics of income) is amended to read as follows:

"SEC. 6108. STATISTICAL PUBLICATIONS AND STUDIES

"(a) Publication or Other Disclosure of Statistics of Income.--The Secretary or his delegate shall prepare and publish annually, and may in his discretion publish or otherwise disclose at any time, statistics reasonably available with respect to the operations of the internal revenue laws, including classifications of taxpayers and of income, the amounts claimed or allowed as deductions, exemptions, and credits, and any other facts deemed pertinent and valuable.

"(b) Special Statistical Studies.--The Secretary or his delegate is authorized, upon written request by any person or persons, to make special statistical studies and compilations of return information (as defined in section 6103 (a) (2) (B)) and to furnish to such person or persons any data obtained from such special statistical studies and compilations in statistical form. The cost of performing such special statistical studies and compilations shall be paid by such person or persons.

"(c) Other Publications.--The Secretary or his delegate may prepare and publish such official rulings, procedures, and similar information of the Internal Revenue Service as he, in his discretion, considers necessary to promote uniform application of the tax laws.

"(d) Taxpayer Identity.--No publication or other disclosure of statistics or other information required or authorized by subsection (a), special statistical study authorized by subsection (b), or information authorized by subsection (c) shall in any manner permit the statistics, study, or any information so published, furnished, or otherwise disclosed to be associated with, or otherwise identify, directly or indirectly, a particular taxpayer.

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SEC. 4. INSPECTION OF CERTAIN RECORDS BY LOCAL OFFICERS.

Section 4102 (relating to inspection of records, returns, etc., by local officers) is amended to read as follows:

"SEC. 4102. INSPECTION OF RECORDS BY LOCAL OFFICERS.

Under regulations prescribed by the Secretary or his delegate, records required to be kept with respect to taxes under this part shall be open to inspection by such officers of a State, the Commonwealth of Puerto Rico, the District of Columbia, a possession of the United States, or a political subdivision of any of the foregoing, as shall be charged with the enforcement or collection of any tax on gasoline or lubricating oils."

SEC. 5. PENALTY FOR UNAUTHORIZED DISCLOSURE OF INFORMATION.

Section 7213 (relating to unauthorized disclosure of information) is amended by striking out subsection (c), redesignating subsections (d) and (e) as (c) and (d) respectively, and by amending subsection (a) to read as follows:

"(a) Returns and Return Information.--

"(1) Federal employees and other persons.--It shall be unlawful for any officer or employee of the United States or any person described in section 6103 (1) (or an officer or employee of any such person), or any person who was formerly any of the foregoing, to disclose or make known in any manner whatever to any person, except as authorized in this title, any return or return information (as defined in section 6103(a)(2)); and it shall be unlawful for any person to print or publish in any manner whatever not provided by law any return or return information as so defined; and any person committing an offense against the foregoing provision shall be guilty of a misdemeanor and, upon conviction thereof, shall be fined not more than $5, 000, or imprisoned not more than 1 year, or both, together with the costs of prosecution, and if the offender be an officer or employee of the United States, he shall be dismissed from office or discharged from employment.

"(2) State employees.--Any officer, employee, or agent, or former officer, employee, or agent, of any State (as defined in section 6103 (a) (2)) who discloses or makes known in any manner whatever to any person, except as authorized in this title, any return or return information (as defined in section 6103 (a) (2)) acquired by him or another person under section 6103 (b) shall be guilty of a misdemeanor, and upon conviction thereof, shall be fined not more than $5, 000, or imprisoned not more than 1 year, or both, together with the costs of prosecution.

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SEC. 6. PROCESSING OF RETURNS, RETURN INFORMATION, AND OTHER DOCUMENTS.

Section 7513 (relating to reproduction of returns and other documents) is amended to read as follows:

"SEC. 7513. MAKING SPECIAL STATISTICAL STUDIES OR PROCESSING OR REPRODUCING OF RETURNS, RETURN INFORMATION, AND OTHER DOCUMENTS.

"(a) In General.--The Secretary or his delegate is authorized to contract, in accordance with regulations to be prescribed by the Secretary or his delegate, with any department, agency, or other executive establishment of the Federal Government, any State agency, or any person for the purpose of making special statistical studies (as defined in section 6108 (b)) or of processing or making reproductions by any means whatever of any return or return information (as defined in section 6103 (a) (2)), document, or other matter. For purposes of this section, the term 'processing' includes services involving system design; advice, maintenance, and training in connection with such systems (and operation to the extent necessary or desirable for such purposes); or other assistance in connection with such processing.

"(b) Regulations.--The Secretary or his delegate is authorized to prescribe regulations to provide such safeguards as in the opinion of the Secretary or his delegate are necessary or appropriate to protect returns, return information, documents, or other matter (and reproductions of any of the foregoing in any form whatever) described in subsection (a) against any unauthorized use or any unauthorized disclosure.

"(c) Penalty. --For penalty for unauthorized use or unauthorized disclosure of information contained in returns, return information, documents, or other matter, see section 7213.

SEC. 7. OTHER APPLICABLE RULES.

Section 7852 (relating to other rules applicable under title 26) is amended by adding at the end thereof the following new subsection (e):

"(e) Privacy Act of 1974. --The provisions of subsections (d)(2), (d)(3), (d)(4), and (g) of section 552a of title 5, United States Code, shall not, except as otherwise provided in section 6103(o), be applied, directly or indirectly, to the determination of any matter to which the provisions of this subtitle apply."

SEC. 8. TECHNICAL AND CONFORMING AMENDMENTS.

(1) Section 6106 (relating to publicity of unemployment tax returns) is hereby repealed.

(2) Section 6110 (relating to cross-references) is amended by striking out paragraphs (2), (3), (4), and (5), and by inserting in lieu thereof "(2) For inspection of certain records concerning gasoline or lubricating oils by local officers, see section 4102."

(3) Section 6323 (relating to validity and priority of tax liens against certain persons) is amended by striking out paragraph (3) of subsection (i).

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(4) Subsection (e) of section 7213 (relating to cross-references) is amended by striking out paragraph (1) and inserting in lieu thereof "(1) Penalties for disclosure of information by preparers of returns. --For penalty for disclosure or use of information by preparers of returns, see section 7216."

(5) Section 7515 (relating to special statistical studies and compilations and other services on request) is hereby repealed.

(6) Subsection (c) of section 7809 (relating to deposit of collections) is amended by striking out in paragraph (1) the words "section 7515 (relating to special statistical studies and compilations for other services on request;" and inserting in lieu thereof "section 6103 (p) (relating to furnishing of copies of returns or of return information) and section 6108 (b) (relating to special statistical studies and compilations;"

Technical changes to change table of contents to be added.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE EDWIN H. YEO, III
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
MONDAY, SEPTEMBER 29, 1975, 10:00 A.M.

I am very pleased to respond to your invitation to discuss the debt limit and related debt management matters, and I will respond as fully as I can to any questions that the Committee may have.

Let me say at the outset that at this time we are unable to provide estimates of receipts and outlays and the resultant deficit for fiscal year 1976. From the standpoint of forecasting revenues as well as expenditures, this is a particularly difficult time. The economy is recovering. While the strength of the upturn is yet to be fully assessed, the initial data convey a sense of vigor and evidence of a strong recovery.

The difficulty of gauging the impact of the recovery on the income side of the Budget is demonstrated by the following specific items:

1. The underlying GNP, personal income and corporate profits figures are still uncertain at this early stage of the economic recovery.

2. There may be inaccuracies in estimates of individual capital gains, since 1974 figures will not be available until late 1975.

3. The potential effects of corporate net losses in calculating refunds are uncertain.

4. There are uncertainties about the lag in collecting corporate tax liabilities since corporations have a degree of flexibility in paying their taxes and in calendar year 1975 there was a sharp drop in profits, measured on a national income accounts basis.

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These problems largely reflect the state of the forecasting art, as well as the range of unpredictable factors which must be taken into account. For example, we have no firm basis on which to judge future trends in consumer sentiment. However, we know that the Federal taxing and spending decisions will influence consumer attitudes and that consumer sentiment is a key factor in sales of automobiles and other consumer durables. We know that international economic developments will have an effect on our own economy, but it is difficult to judge how the economies of other countries will develop. The future patterns evolving from world supplies of food, together with unresolved questions surrounding energy prices, both lead to significant uncertainty regarding prospects for our exports and imports.

In addition to the factors mentioned above, there are the questions concerning the Tax Relief Act of 1975, tax withholding rates, and various energy issues, including the $2 oil import fee and the 60 cent fee applied to products. For example, if the $2 oil import fee is continued (but not the product levy) and the tax relief provided by the 1975 tax reduction act is discontinued, the revenue estimate would be at the high end of a range of $297.6 billion to $305.6 billion. On the other hand, if the tax relief act is extended, along with adjustments to the withholding rates to maintain the amounts of taxes withheld (at current levels), and the $2 oil import fee is not continued, then revenues would probably be at the low end of the range. In addition to the actions that yield these two levels of revenue, there are several combinations of actions that would produce revenues within the range.

On the expenditures side we have a similar problem, in part because of the automatic impetus provided to expenditures by the recession and in part because of the continued increase in outlays not related to the recession. Thus total expenditures as of the Mid Session Review were estimated at $358.9 billion, up $9.5 billion from the $349.4 billion earlier estimated. Furthermore, the first concurrent resolution on the Budget for fiscal year 1976, submitted as a conference report to the Congress on May 9, estimated total expenditures of $368.2 billion.

The result of all the factors mentioned above is that meaningful estimates of the deficit for fiscal year 1976 at this point are more than extremely difficult to maintain. Consequently, any estimates could be misleading and thus harmful, instead of constructive, in providing guidance to the Committee regarding appropriate adjustments of the debt limit.

We have seen a steady escalation of the prospective deficit. The President submitted a Budget which called for a fiscal year 1976 deficit of $51.9 billion. In the Mid-Session Review, published May 30, the expected deficit was increased to $59.9 billion. The first concurrent resolution of the Budget for fiscal year 1976 recommended a deficit of $68.3 billion. Tough action on the part of the Executive Branch and the Congress will be required if we are to avoid the disruptive effects to the still young economic recovery, of a further ballooning of the deficit; a process which I feel has the potential for carrying the deficit as high as $90 billion.

The temporary debt limit expires on November 15. It is possible that several of the many variables that I have cited might not be resolved by that time. Congress, in this case, would not be in a position to take timely action on the debt limit. If the Committee would like to act on a temporary extension of the debt limit to provide additional time, a simple extension of the $577 billion limit to December 15 would be a workable approach.

Although it is not possible to make a final determination on the debt limit itself in these hearings, I do want to take the opportunity, Mr. Chairman, to urge your Committee and the Congress to deal expeditiously with the task of providing the Treasury with increased flexibility in three areas. These are:

1. A $10 billion increase in the amount of bonds that may be issued without regard to the 4-1/4 percent ceiling;

2. Extension of the maximum maturity of Treasury notes from the present 7 years to 10 years; and

3. Removal of the 6 percent ceiling on the Savings Bonds rate.

Let me review the reasons we need this greater debt management flexibility.

Three weeks ago in my September 10 press conference, I announced that the Treasury will need to borrow $44 to $47 billion of new money during the second half of 1975, raising the total for the calendar year to a range of $80 to $83 billion. This excludes new money raised by the issuance of guaranteed securities and government-sponsored agencies which we estimate at $6.0 billion and $3.0 billion respectively in the current calendar year.

We have substantial refunding requirements this year. Apart from the rollover of the $77 billion of privately-held regular weekly and monthly bills, $23.0 billion of privately-held U.S. Treasury coupon issues will be refunded this year.

Of the $80 to $83 billion that the Treasury will need to borrow in this calendar year, through September we have met $59.9 billion of this need through issues of marketable Treasury securities to the public; $45.2 billion, or 75 percent of the total, has been in maturities of less than 2 years; $12.8 billion, or 22 percent has been in maturities of 2 to 7 years; only $1.9 billion, or 3 percent of the total, has been in the over 7-year area.

Mr. Chairman, Members of the Committee, our financial markets are already reflecting the pressures of heavy Government financing. The hoped-for recovery of residential construction and business investment is being hampered by the impact of massive Federal debt financing requirements. Although some analysts assume that the financial needs of an economic recovery can be automatically filled, the reality is that mortgages, consumer debt and business spending for fixed investment and inventories must compete against unprecedented Treasury borrowing requirements which will continue throughout this year and into the future.

The heavy Treasury borrowing requirements have become the dominant factor in the financial markets at the same time that private sector needs are expected to increase. The severity of the recession, particularly the rapid runoff of inventories, has moderated the private demand for credit, enabling the Treasury needs to be met with deceptive ease until recently. However, there is already clear evidence that some firms have been unable to obtain desired financing and even successful borrowers have had to pay historically-high interest rates. The future pace of the economic recovery will depend upon the availability of credit across the broad spectrum of economic activity.

If specific sectors, such as residential construction or large numbers of businesses who do not have top credit ratings, are unable to obtain necessary financing, both the strength and sustainability of the recovery will be disappointing. The impact of such large Treasury borrowing needs resulting from the deficits must receive greater attention in preparing general economic forecasts. This was the basis of our warnings about the financial disturbances of restricted access to funds and rising interest rates that would result when private borrowing needs generated by the recovery have to compete against Treasury borrowing. Unfortunately, financial market developments already indicate that these problems are occurring.

Our strategy is to minimize the disruptive effects of the Treasury financing job. However, this requires that we have adequate debt management flexibility.

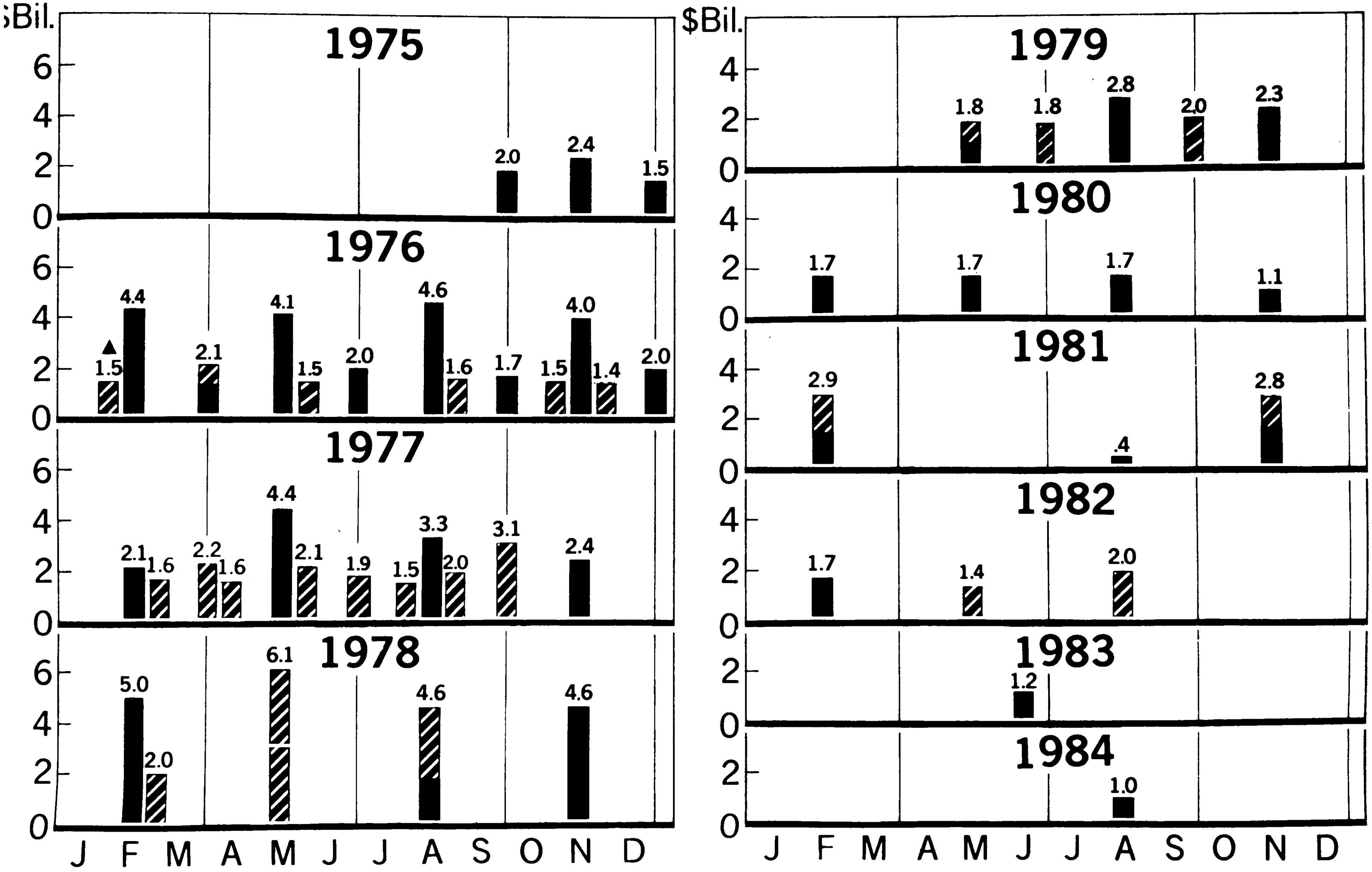
We have already taken the constructive step of reducing our emphasis on the short-term bill market -- to limit the risk that excessive amounts of short-term Treasury debt will lead to a rise in all short-term interest rates with the accompanying adverse economic and financial consequences that we experienced in 1966, 1969-70, and again in 1973.

Despite our continuing efforts to provide a degree of relief from pressures on the very short-term portion of the market, the average length of privately-held marketable Treasury securities has already dropped to 2 years, 6 months, and there has been a great compression of Treasury maturities. We are, indeed, arriving at a point where we have significant coupon maturities every month of the year.

Extension of the maximum maturity of Treasury notes from 7 years to 10 years will provide additional flexibility which can be used to help arrest the decline in the average maturity of the debt and reduce the concentration in short-term issues which has taken place in recent years. In this connection, Mr. Chairman, I want to draw the Committee's attention especially to the debt spacing chart included in my statement. It is obvious that we have little room to manuever within the 7-year limit, and that the concentration of debt will continue to build in this area, unless there is some relief. This might seem tolerable for a time, but the build-up of maturities which have to be refunded will add to the volatility of markets and could be a seriously disturbing matter for other borrowers and for our financial institutions.

TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills and Exchange Notes



New issues January-September 1975, issued or announced.
▲ Treasury bills (in 2 year cycle slot).

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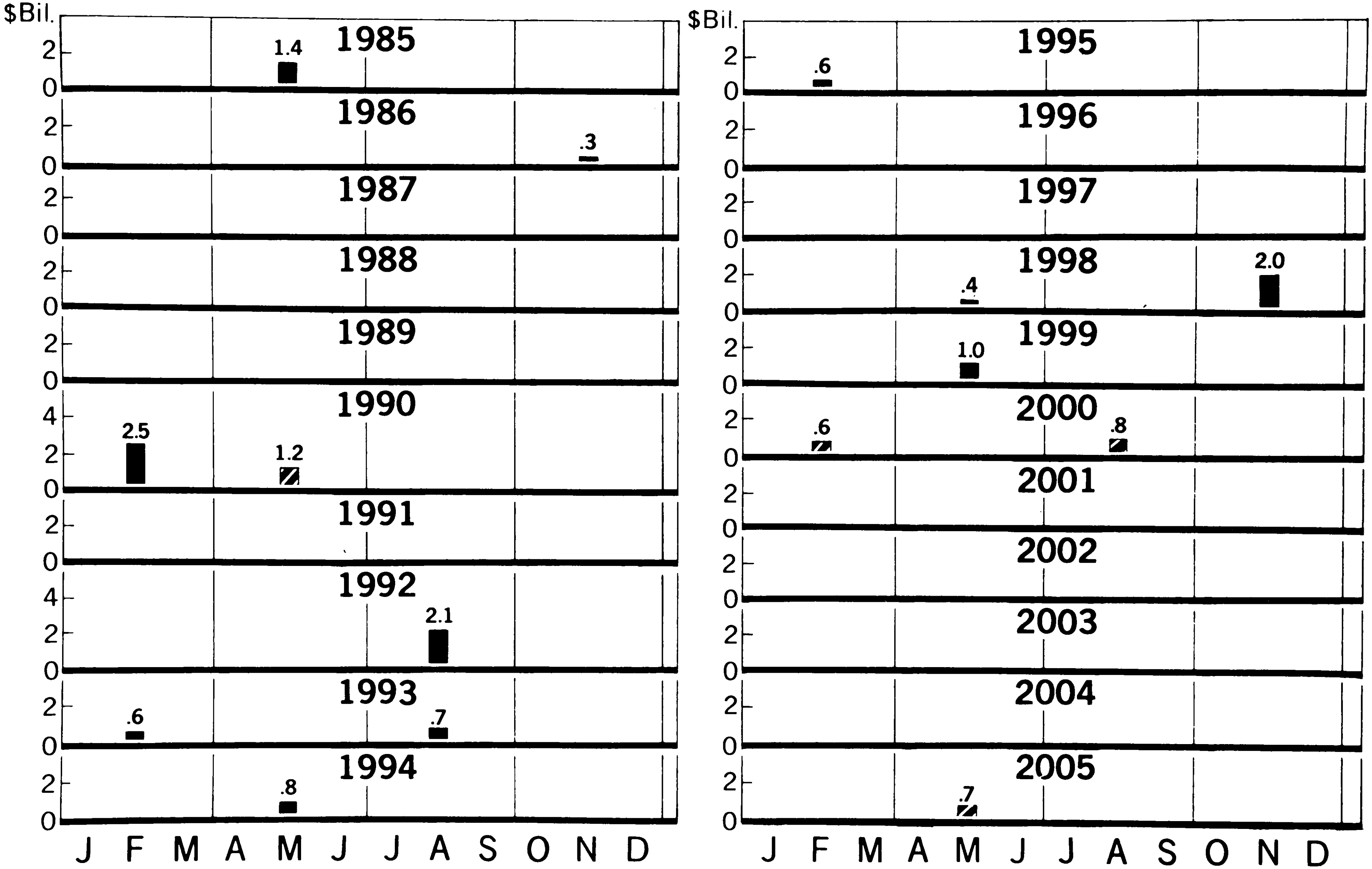
TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills and Exchange Notes



New issues January-September 1975, issued or announced.

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The second area in which we need additional flexibility is a logical extension of the one I have just discussed. Sound debt management must involve access to the longer-term bond markets. Less than one billion remains unused of the Treasury's present authority to issue bonds without regard to the 4-1/4 percent ceiling. This is only enough for one more offering and is clearly inadequate in terms of the continuous deterioration in the structure of the debt and its average maturity.

Treasury's offerings of long-term, 20- to 30-year bonds, as well as our one offering of 15-year bonds, have been highly successful and constructive for markets. The market has accepted our offerings. It now anticipates them, and they are readily absorbed into the financial structure where they provide a standard of value not only for our own market, but for the agency, the corporate, and the municipal markets as well.

While market conditions are unpredictable, and this affects the amount of longer-term issues which might usefully be issued in any specific period, we have been responsible and sensitive to financial and economic conditions in our use of the exception to the 4-1/4 percent limit.

The third debt management measure is removal of the 6 percent rate ceiling on Savings Bonds. The purpose is to allow the rate on Savings Bonds to be changed more promptly from time-to-time in recognition of changing financial circumstances, and to provide greater assurance to the small investor, who is our biggest purchaser and holder of Savings Bonds, that his Government will continue to give him a fair rate of return on his investment.

Mr. Chairman, Members of the Committee, Savings Bonds account for about one-fourth of the total privately-held Treasury debt, and the average Savings Bond stays outstanding longer than the average marketable security. Thus, Savings Bonds are an important source of stability for debt management. We cannot afford to take the chance of losing Savings Bonds investors. It takes time to build the program, but hard-won gains can be dissipated rapidly if we don't keep the Savings Bonds program attractive for existing and potential savings bonds investors.

There is a huge debt management job before us. We will do our part of the debt management job as responsibly as we can. Congress can help immeasurably by giving us the additional flexibility we need to do the job.

o O o

New Money Raised in Marketable Treasury Obligations
January 1 - September 25, 1975
Issued or Announced Through September 25

(Billions of dollars)

Maturity	Amount: Jan. 1- Sep. 30	Amount: Jan. 1- June 30	Amount: July 1- Sep. 30	1/1 - 9/30 Percent of Total
years or less	45.2	25.6	19.5	75.4
13-26 week bills	24.7	13.3	11.4	41.4
Miscellaneous bills	-6.9	-6.9	--	-11.5
52-week bills	5.8	2.4	3.4	9.7
Short coupons, 1-2 years	21.5	16.8	4.7	35.9
to 7 years	12.8	6.2	6.6	21.4
2-3 years	2.5 2/	--	2.5	4.2
3-5 years	7.1 1/	3.3	3.8	11.9
5-7 years	3.2 1/- 2/	2.9	.3	5.3
to 20 years	1.2	1.2	--	2.1
7-10 years	--	--	--	--
10-20 years	1.2	1.2	—	2.1
er 20 years	.6 1/- 2/	.5	.1	1.1
Total	59.9	33.5	26.3	100.0

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1/ Includes pro rata share of new money raised in February refunding.

2/ Includes pro rata share of new money raised in May and August refunding.

e: Figures may not add to totals due to rounding.

Table 2

CHANGES IN OWNERSHIP OF TREASURY PUBLIC DEBT SECURITIES

(Par values 1/ in billions of dollars)

End of Month	Outstanding: Lv.	Outstanding: Chg.	Fed & GA: Lv.	Fed & GA: Chg.	Total privately held: Lv.	Total privately held: Chg.	Commercial banks 2/: Lv.	Commercial banks 2/: Chg.	Individuals 3/: Lv.	Individuals 3/: Chg.	Insurance Companies: Lv.	Insurance Companies: Chg.	Mutual savings banks: Lv.	Mutual savings banks: Chg.	Corporations 4/: Lv.	Corporations 4/: Chg.	State and local governments: Lv.	State and local governments: Chg.	Foreign and international 5/: Lv.	Foreign and international 5/: Chg.	Other investors 6/: Lv.	Other investors 6/: Chg.
1974																						
May	474.7	2.8	215.3	4.1	259.4	-1.3	54.4	-2.4	80.0	0.8	6.0	0.1	2.6	-0.1	11.2	0.7	29.2	-0.9	57.3	1.4	18.6	-1.1
June	475.1	0.4	218.7	3.4	256.4	-3.0	53.2	-1.2	80.7	0.7	5.9	-0.1	2.6	0.0	10.8	0.4	28.3	0.9	57.7	0.4	17.3	-1.3
July	475.3	0.2	215.6	-3.1	259.7	3.3	53.9	0.7	81.6	0.9	5.7	-0.2	2.6	0.0	11.3	0.5	28.8	0.5	56.9	-0.8	18.8	1.5
Aug.	481.8	6.5	222.8	7.2	259.0	-0.7	53.0	-0.9	82.6	1.0	5.7	0.0	2.6	0.0	1[illegible].0	-0.3	29.2	0.3	56.0	0.9	19.0	0.2
Sept.	481.5	-0.3	221.6	-1.2	259.8	0.8	52.9	-0.1	83.3	0.7	5.8	0.1	2.5	-0.1	10.5	-0.5	29.3	0.1	56.0	0.0	19.5	0.5
Oct.	480.2	-1.3	217.8	-3.8	262.5	2.7	53.5	0.6	83.8	0.5	5.9	0.1	2.5	0.0	11.2	0.7	28.8	0.5	56.6	0.6	20.3	0.8
Nov.	485.4	5.2	220.0	3.2	265.3	2.8	54.5	1.0	84.3	0.5	5.9	0.0	2.5	0.0	11.0	-0.2	28.7	-0.1	58.3	1.7	20.1	-0.2
Dec.	492.7	7.3	221.7	1.7	271.0	5.7	56.5	2.0	84.8	0.5	6.1	0.2	2.5	0.0	11.0	0.0	29.2	0.3	58.4	0.1	22.4	2.3
1975																						
Jan.	494.1	1.4	220.4	-1.3	273.8	2.8	54.5	-2.0	85.3	0.5	6.2	0.1	2.6	0.1	11.3	0.3	30.0	0.8	61.5	3.1	22.3	-0.1
Feb.	499.7	5.6	220.8	0.4	278.9	5.1	56.9	2.4	85.3	0.0	6.2	0.0	2.7	0.1	11.4	0.1	30.5	0.5	64.6	3.1	21.3	-1.0
Mar.	509.7	10.0	219.9	-0.9	289.8	10.9	62.0	5.1	85.7	0.4	6.6	0.4	2.9	0.2	12.0	0.6	29.7	-0.8	65.0	0.4	25.9	4.6
Apr.	516.7	7.0	225.9	6.0	290.9	1.1	63.0	1.0	86.1	0.4	6.7	0.1	3.2	0.3	12.5	0.5	29.8	0.1	64.9	-0.1	24.7	-1.2
May	528.2	11.5	226.5	0.6	301.7	10.8	65.7	2.7	86.6	0.5	6.9	0.2	3.4	0.2	13.7	1.2	29.8	0.0	66.8	1.9	26.8	1.9
June	533.2	5.0	230.0	3.5	303.2	1.5	69.2	3.5	87.1	0.6	7.1	0.2	3.5	0.1	13.2	0.1	29.6	-0.2	66.0	-0.8	27.4	0.6
July	538.2	5.0	224.4	-5.6	313.8	10.6	71.4	2.2	87.5	0.4	7.3	0.2	3.7	0.2	15.0	1.8	30.8	1.2	66.4	0.4	31.7	4.3
Aug.	546.[illegible]	[illegible].5	227.3	2.9	319.4	5.6	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a

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1/ United States savings bonds are included at current redemption value.

2/ Consists of commercial banks, trust companies, and stock savings banks in the United States and in Territories and island possessions. Figures exclude securities held in trust departments.

3/ Includes partnerships and personal trust accounts.

4/ Exclusive of banks and insurance companies.

5/ Consists of the investments of foreign balances and international accounts in the United States. Beginning with July 1974 the figures exclude noninterest-bearing notes issued to the International Monetary Fund.

6/ Consists of savings and loan associations, nonprofit institutions, corporate pension trust funds, and dealers and brokers. Also included are certain government deposit accounts and government-sponsored agencies.

Table 3

OFFERINGS OF MARKETABLE SECURITIES 1/

JANUARY - SEPTEMBER 1975
(amounts in billions of dollars)

Maturity	Jan. - Sep. 1975	Percent of Total	July 1 - Sep. 30, 1975	Percent of Total
btal Offerings	84.9	100.0	35.6	100.0
nder 2 years	58.1	68.4	23.9	67.1
Bills:	34.6	40.8	17.3	
13, 26-week bills 2/	24.7		11.4	
52-week bills	5.8		3.4	
Other bills	4.1		2.5	
Coupons:	23.4	27.6	6.6	18.5
1 year - 3 mo., issued 1/9	0.8			
1 year - 6 mo., issued 3/3	1.7			
2 years- 0 mo., issued 3/3	1.7			
1 year - 2 mo., issued 3/25	1.6			
2 years- 0 mo., issued 3/31	2.3			
1 year - 8 mo., issued 4/8	1.5			
2 years- 0 mo., issued 4/30	1.6			
2 years- 0 mo., issued 5/27	2.1			
1 year - 5 mo., issued 6/6	1.6			
2 years- 0 mo., issued 6/30	2.0			
2 years- 0 mo., issued 7/31	1.5		1.5	
2 years- 0 mo., issued 8/29	2.0		2.0	
2 years- 0 mo., issued 9/30	3.1		3.1	
- 7 years	23.2	27.4	10.8	30.3
4 years- 4 mo., issued 1/7	1.3			
3 years- 3 mo., issued 2/18	3.3			
6 years- 0 mo., issued 2/18	1.8			
6 years- 8 mo., issued 3/19	1.8			
3 years- 3 mo., issued 5/15	2.8			
7 years- 0 mo., issued 5/15	1.5			
4 years- 0 mo., issued 7/9	1.8		1.8	
2 years- 9 mo., issued 8/15	3.0		3.0	
7 years- 0 mo., issued 8/15	2.0		2.0	
4 years- 1 mo., issued 9/4	2.0		2.0	
2 years- 5 mo., to be issued 10/7	2.0		2.0	
- 20 years	1.2	1.4		
15 years- 1 mo., issued 4/7	1.2			
er 20 years	2.3	2.7	.8	2.2
20/25 years- 0 mo., issued 2/18	0.8			
25/30 years- 0 mo., issued 5/15	0.7			
20/25 years- 0 mo., issued 8/15	0.8			.8

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1/ Excludes exchange offerings to Federal Reserve and Government Accounts.

2/ Includes $0.7 billion to be issued October 2, 1975.

Table 4

Marketable Maturities Through September 30, 1976
(Issued or Announced Through September 25, 1975)

(in billions of dollars)

	Oct. 1 - June 30, 1976		July - Sep. 1976	
	Outstand-ing	Privately-held	Outstand-ing	Privately-held
Treasury Bills	$ 134.7	$ 100.8	$ 8.0	$ 5.9
Regular weekly	112.9	n.a.	--	--
52-week	21.8	n.a.	8.0	5.9
Coupons and Other				
1975:				
1-1/2% note 10/1/75	*	*		
7% note 11/15/75	3.1	2.4		
7% note 12/31/75	1.7	1.5		
1976:				
January 31 bill 1/	1.6	1.5		
6-1/4% note 2/15/76	3.7	.9		
5-7/8% note 2/15/76	4.9	3.5		
8% note 3/31/76	2.3	2.1		
1-1/2% note 4/1/76	*	*		
6-1/2% note 5/15/76	2.7	1.9		
5-3/4% note 5/15/76	2.8	2.2		
6% note 5/31/76	1.6	1.5		
8-3/4% note 6/30/76	2.7	2.0		
7-1/2% note 8/15/76			4.2	2.6
6-1/2% note 8/15/76			3.9	2.0
5-7/8% note 8/31/76			1.7	1.6
8-1/4% note 9/30/76			2.0	1.7
	161.8	120.3	19.8	13.8

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1/ Treasury bill in two-year cycle slot.

Table 5

Treasury Issues, Maturities and New Money

FY 1973-5

in millions of dollars

	Jul-Dec 1972	Jan-June 1973	FY '73 Total	Jul-Dec 1973	Jan-June 1974	FY '74 Total	Jul-Dec 1974	Jan-June 1975	FY '75 Total	Jul-Sep 1975p
Gross Issues	144,374	134,745	279,119	142,145	141,228	283,373	168,678	187,679	356,357	110,543
Bills	125,297	120,660	245,957	132,111	128,981	261,092	145,562	149,680	295,242	89,631
Coupons	19,077	14,085	33,162	10,034	12,247	22,281	23,116	37,999	61,115	20,912
Gross Maturities	131,565	140,915	272,480	134,562	144,349	278,911	151,955	154,632	306,587	85,239
Bills	115,975	124,463	240,438	124,490	131,740	256,230	130,854	140,857	271,711	75,518
Coupons	15,590	16,452	32,042	10,072	12,609	22,681	21,101	13,773	34,874	9,721
Net (+ or - Issues)	12,809	-6,170	6,639	7,583	-3,121	4,462	16,723	33,047	49,770	25,304
Issued to Private										
Bills (net)	9,322	-3,803	5,519	7,621	-2,759	4,862	14,708	8,823	23,531	14,113
Coupons	15,327	6,683	22,010	8,102	9,810	17,912	14,603	31,938	46,541	1/ 18,282
Total	24,649	2,880	27,529	15,723	7,051	22,774	29,311	40,761	70,072	32,395
Maturities Privately Held										
Coupons	11,798	9,114	20,912	8,095	10,061	18,156	12,466	7,215	19,681	6,770
New Money from Private	12,851	-6,234	6,617	7,628	-3,010	4,618	16,845	33,546	50,391	25,625

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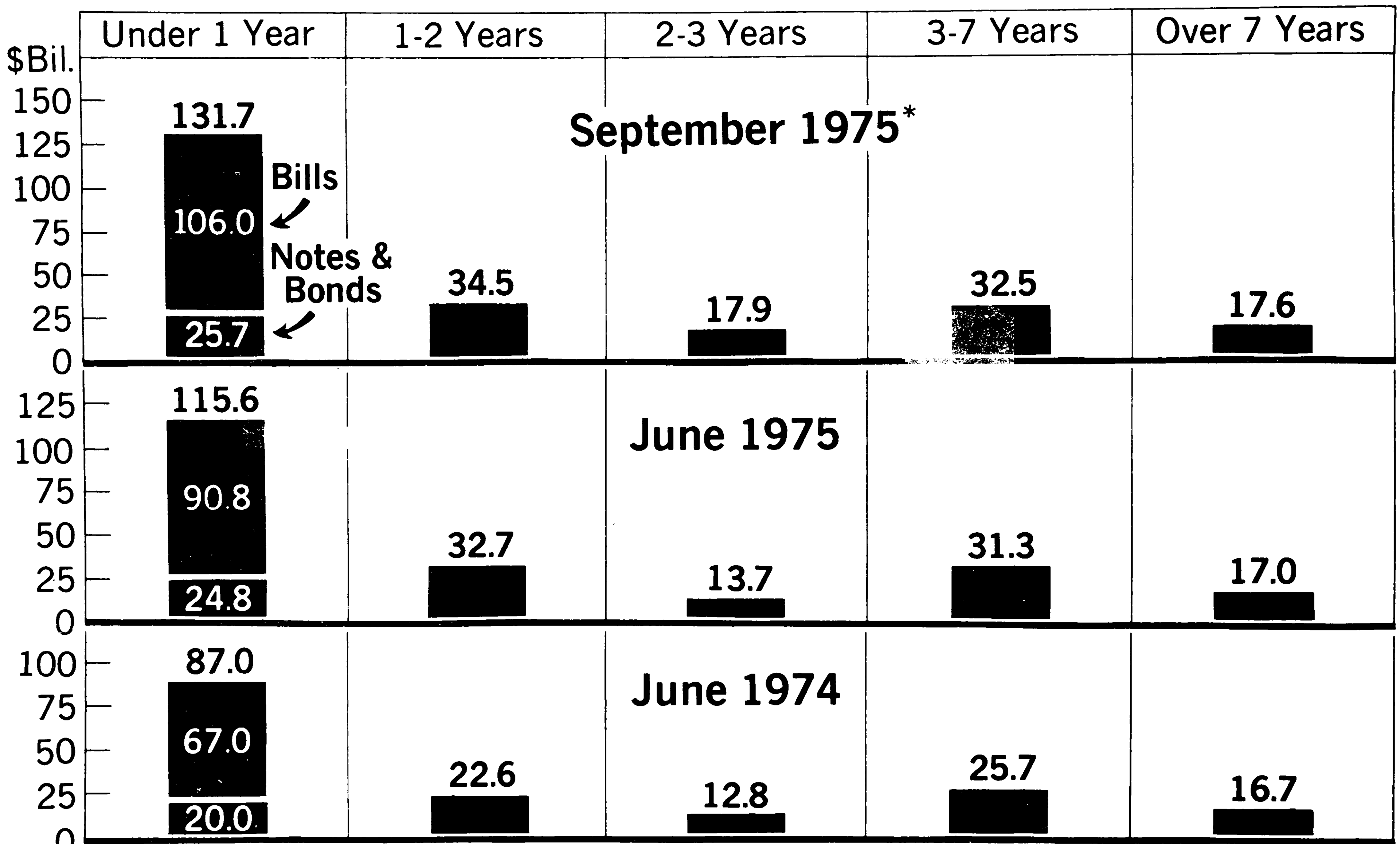
1/ Includes security to be issued 10/7/75.

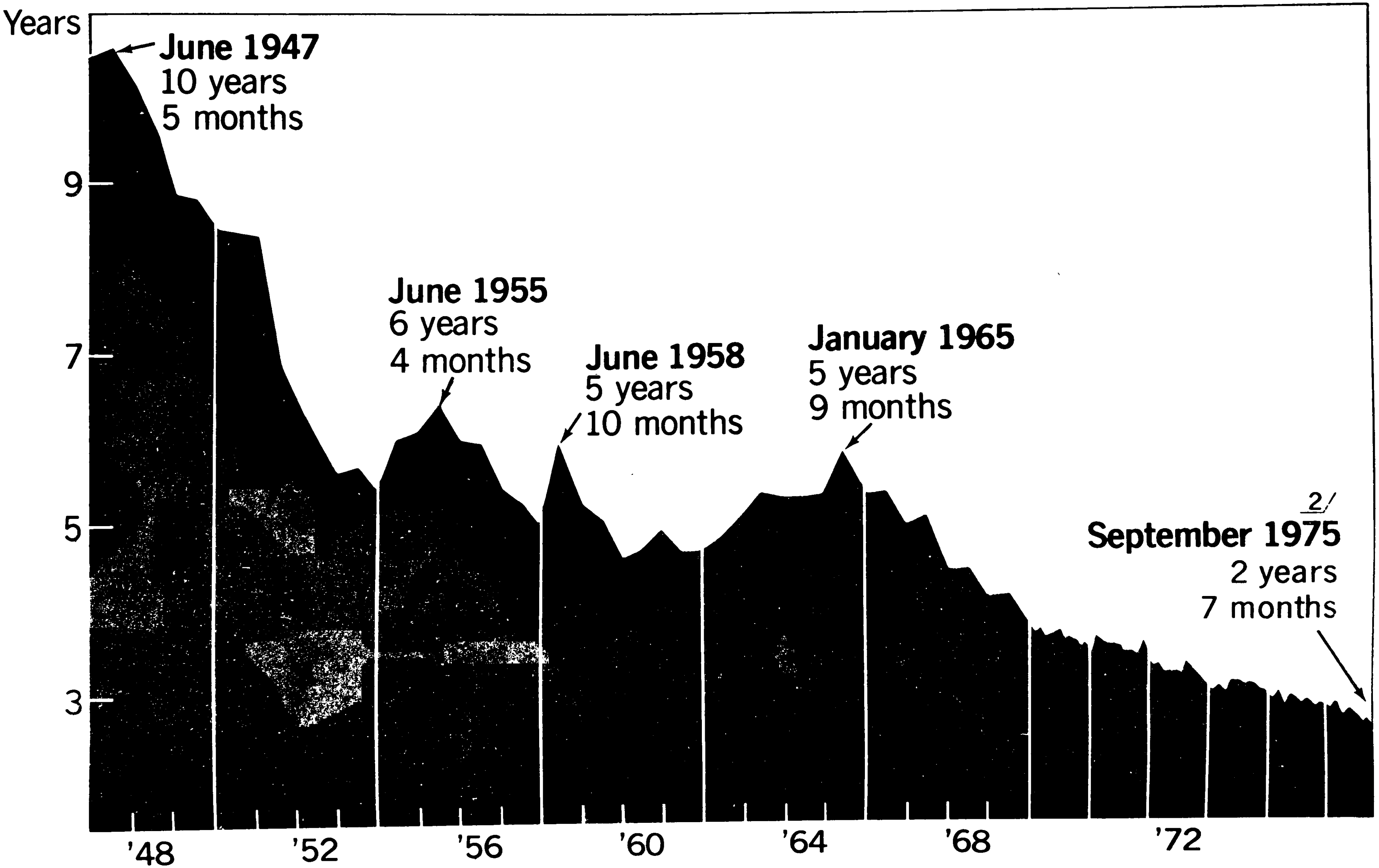
MATURITY DISTRIBUTION OF PRIVATELY HELD TREASURY MARKETABLE DEBT



*Estimated

AVERAGE LENGTH OF THE MARKETABLE DEBT 1/

Privately Held



1/ Semi-annual plots, calendar years 1946-1969, monthly thereafter.
2/ Partly estimated

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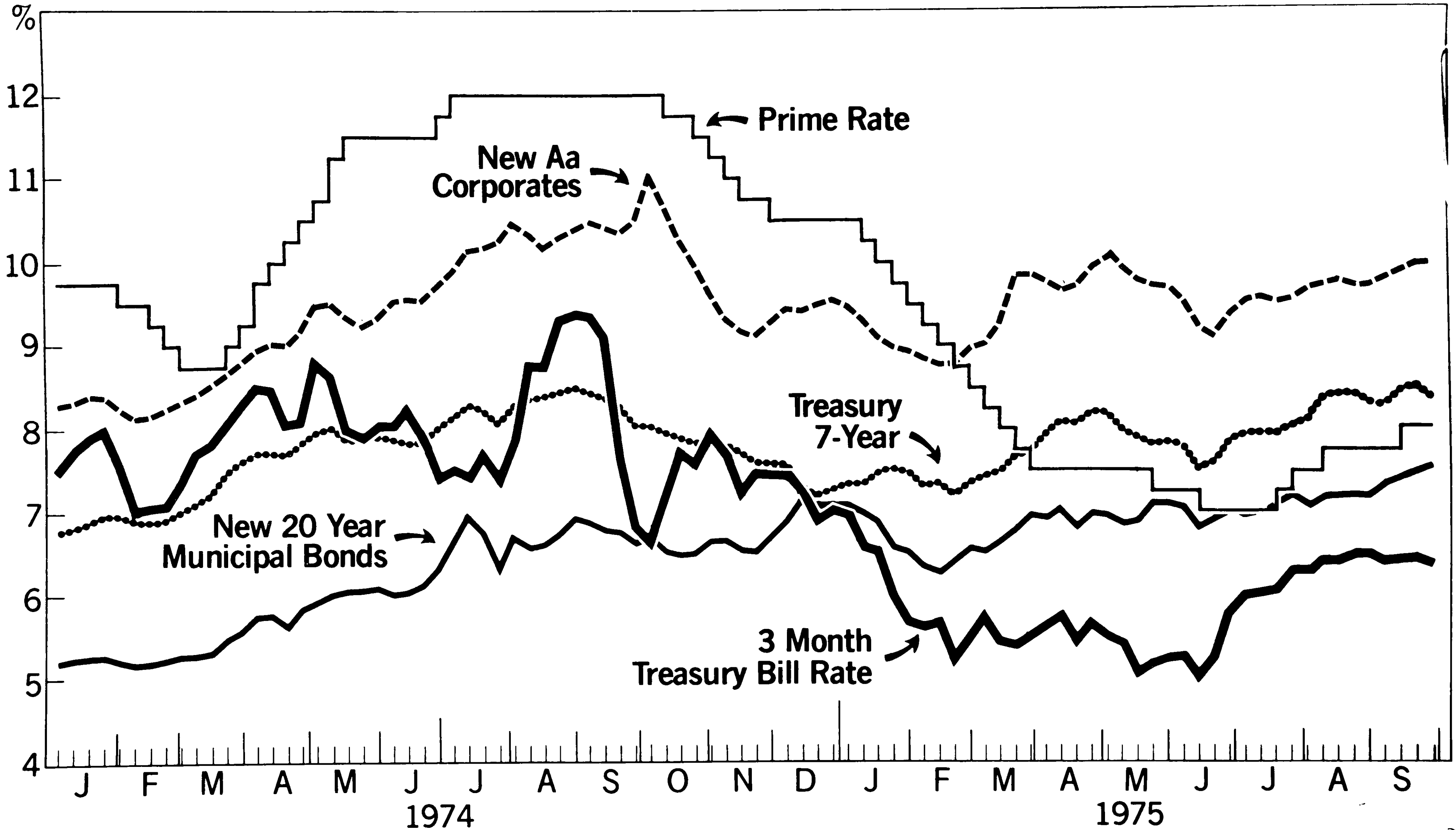
INTEREST RATES

Weekly Averages



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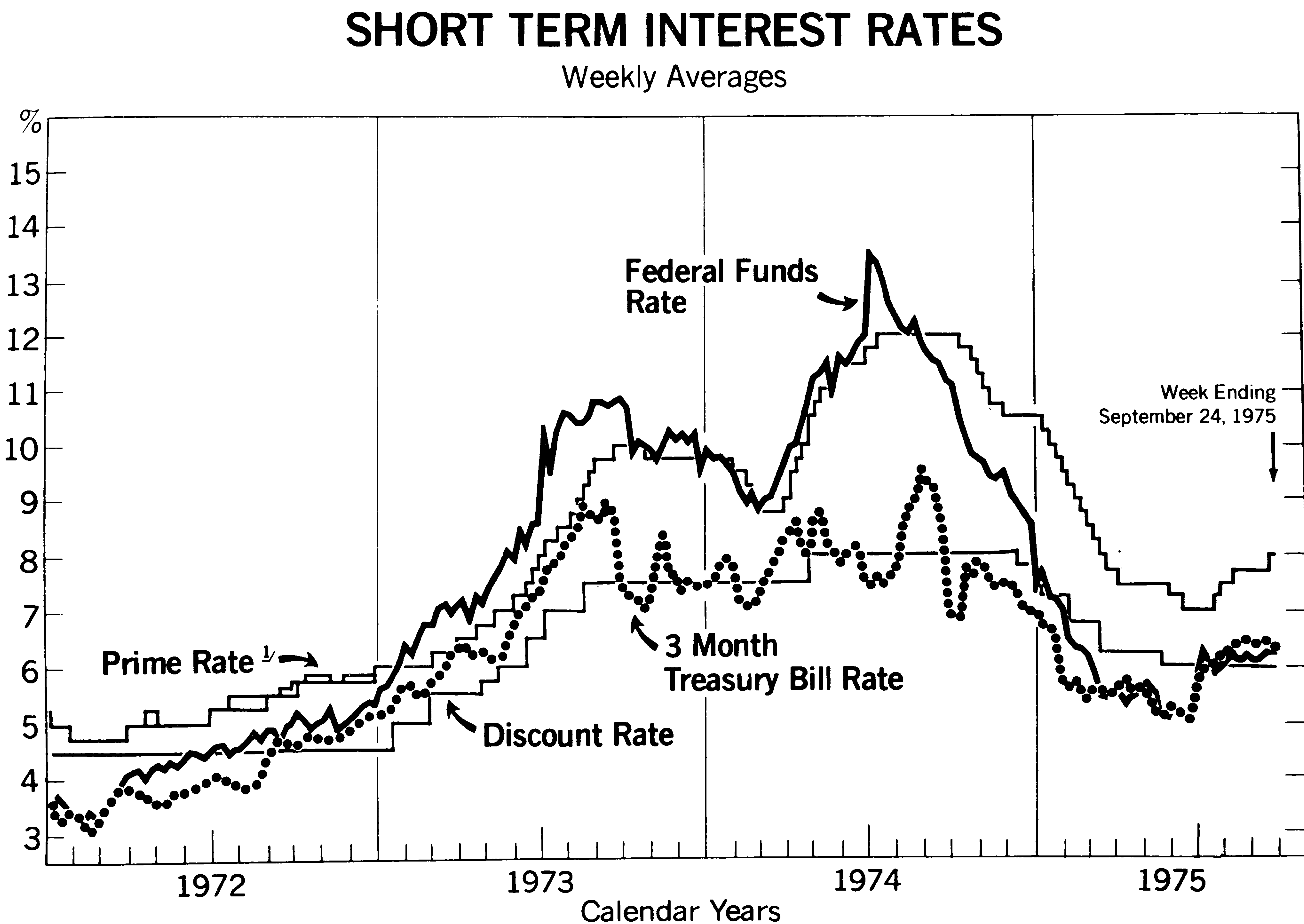

1/ On August 22, 1975 the prime rate for most banks was 7 3/4%.

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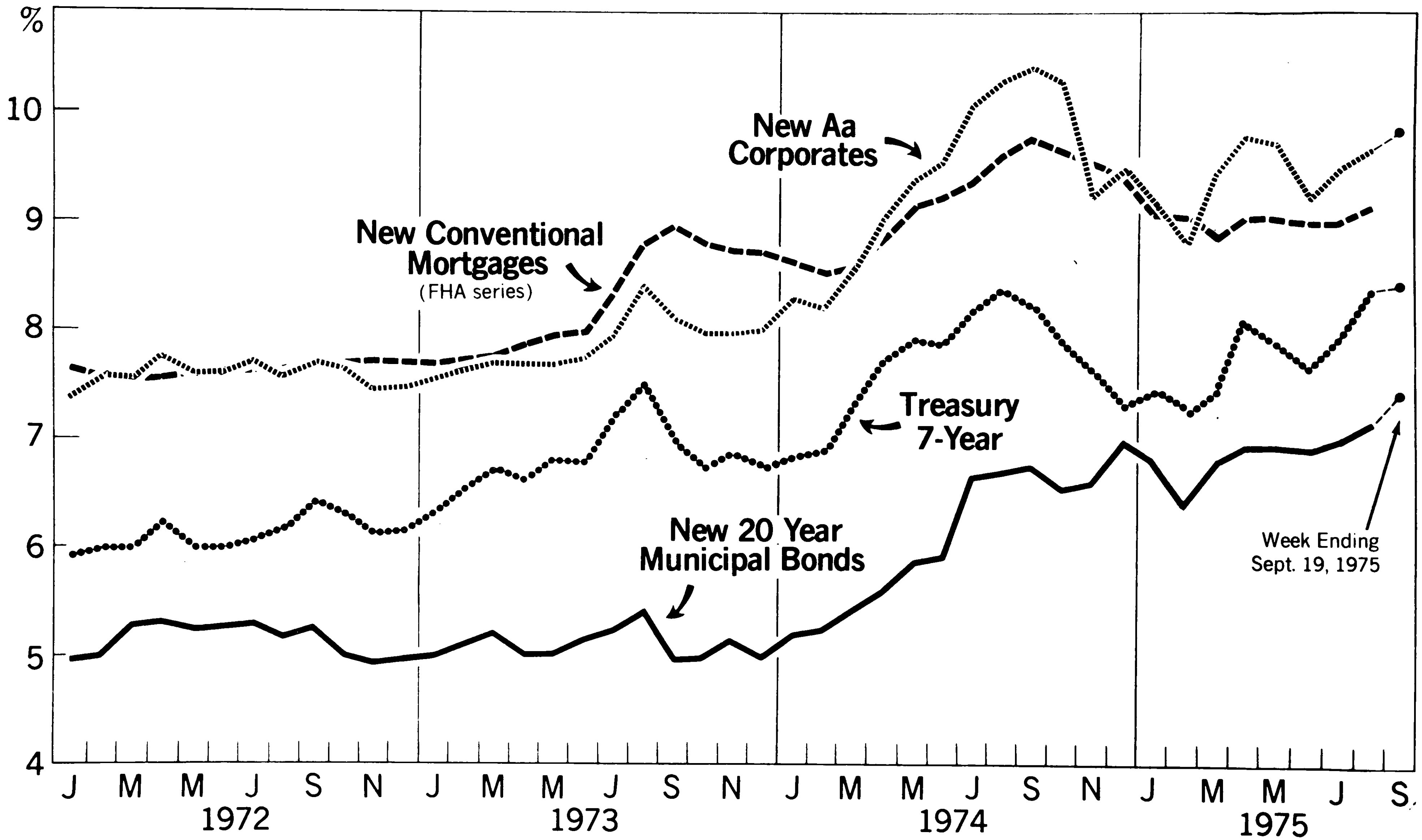
INTERMEDIATE AND LONG MARKET RATES

Monthly Averages



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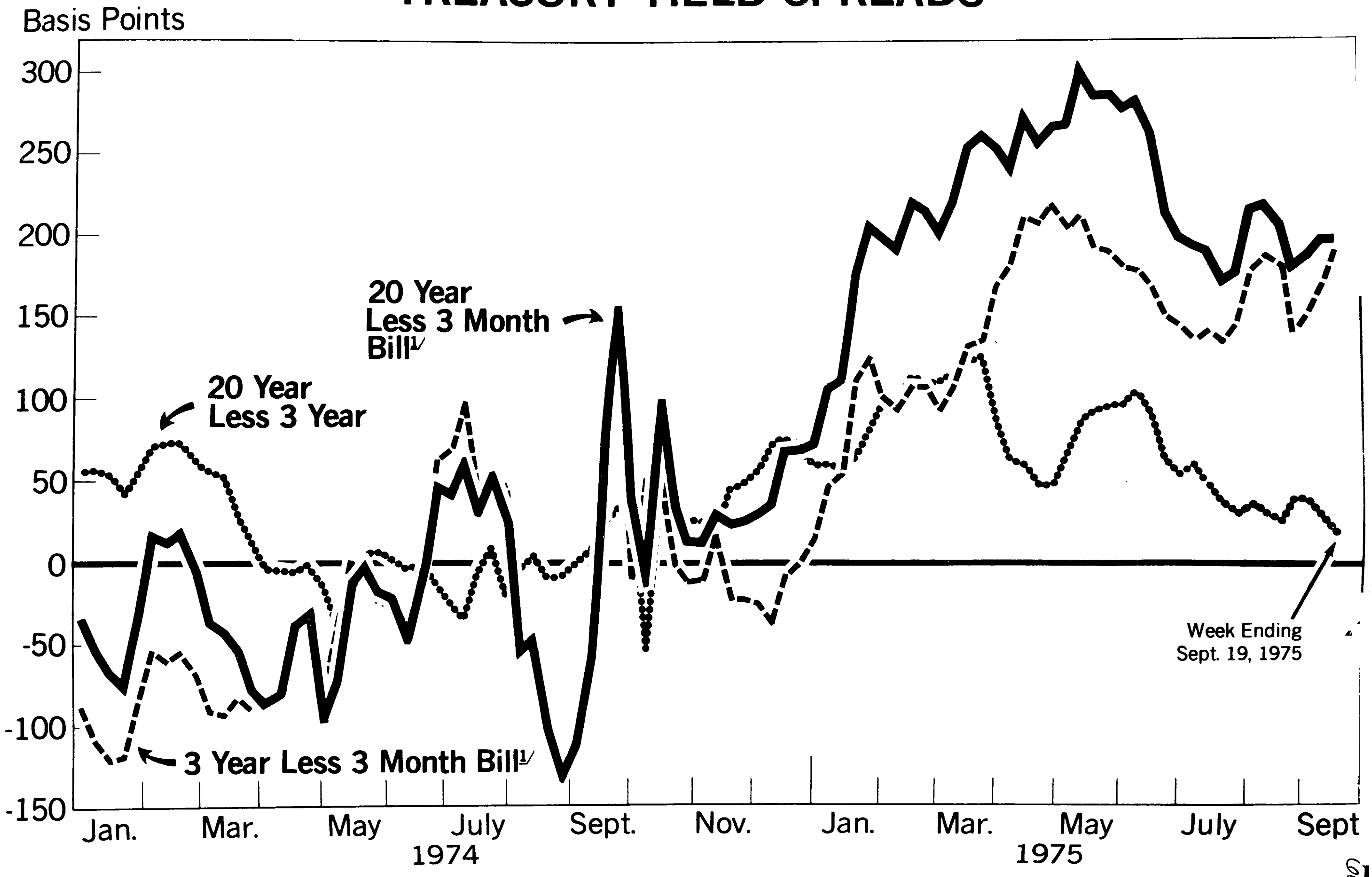
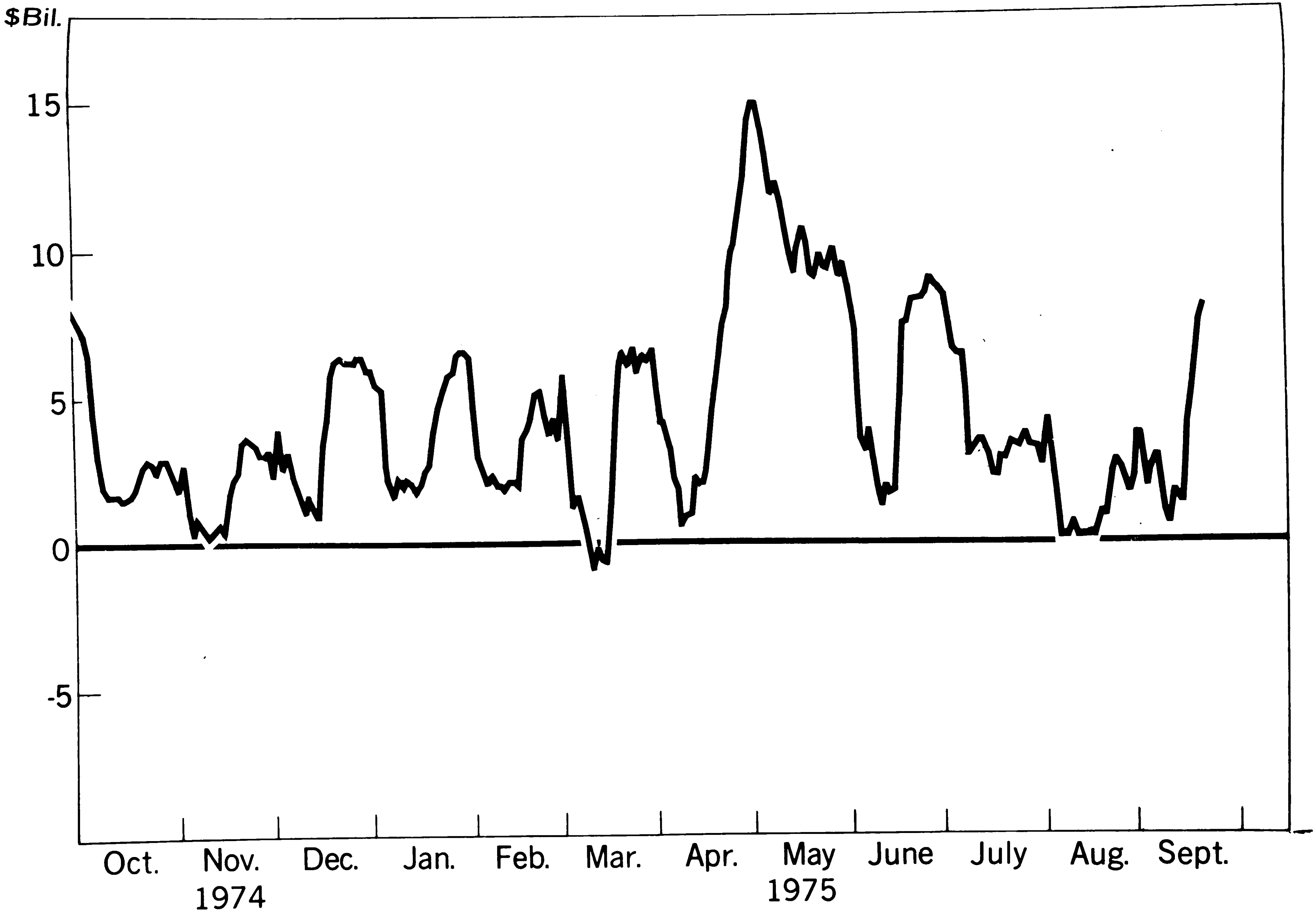
TREASURY YIELD SPREADS



1/ 3 Month bill on coupon equivalent basis.



*Daily

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WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE HOUSE BUDGET COMMITTEE
SEPTEMBER 29, 1975

Mr. Chairman and members of this distinguished Committee:

I am pleased to appear before you this morning to review current economic conditions and to discuss the Federal budget revenue estimates prepared by the Department of the Treasury. My analysis of economic developments and prospects will hopefully contribute to a broader understanding of the economic recovery now underway and the importance of sustaining responsible policies required for achieving both our near-term goals regarding inflation, unemployment and national output as well as our long-term objective of creating a more stable economy. The discussion of projected Federal budget revenues and the related testimony of James T. Lynn, Director of the Office of Management and Budget, concerning anticipated Federal outlays will provide necessary background for decisions about the future course of fiscal policies.

This Committee has a vital role in developing national economic policies. The past decade has been an unusually difficult period as our policy flexibility has been increasingly restricted by the lagged impact of past decisions. In particular, great concern has developed about the impact of Federal spending and tax policies as outlays have accelerated more rapidly than the overall growth of the economy and

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chronic Federal deficits have occurred. Your Committee was created to help correct these serious problems. While I do not agree with some of your policy recommendations, I am impressed by your efforts to create a more organized and disciplined approach to making Congressional fiscal decisions. The First Concurrent Resolution to Congress was a constructive step in providing general economic and spending guidelines. However, the real test for the Congressional Budget Committees is yet to come as the specific actions of individual appropriation committees must be adjusted to conform to the targets to be established by your Second Concurrent Resolution to Congress. I look forward to working with you in preparing these important fiscal policy recommendations which will directly affect the current recovery and the future of the U.S. economy.

I. ECONOMIC OVERVIEW

The United States has developed the most productive and creative economic system in the world. Americans have traditionally experienced rising standards of living as real output has increased, inflation pressures have been relatively moderate and employment opportunities have expanded. However, the performance of the U.S. economy during the past decade has been disrupted by recurring booms and recessions caused by inappropriate fiscal and monetary policies. The resulting excessive rates of inflation and unemployment created serious domestic economic distortions and eventually disrupted the balance of the international system. No matter how well-intentioned the original fiscal and monetary actions may have been, the resulting sequence of overheating and accelerating inflation, followed by periods of recession and unemployment, has been a heavy price to pay for temporary economic benefits.

In planning economic policies for 1975 the Administration believed that recovery would begin by midyear if three fundamental adjustments could be accomplished: (1) the unwanted accumulation of inventories could be liquidated and new orders increased; (2) "real incomes" of consumers could be restored by reducing the double-digit level of inflation and initiating tax reductions and rebates which would stimulate personal consumption; and (3) employment would begin to increase rapidly enough to reduce the unemployment rate and strengthen consumer confidence. Fortunately, these adjustments have occurred.

During the first three months of 1975 the real output of goods and services continued to decline at a seasonally adjusted annual rate of 11.4 percent but economic performance was already beginning to shift as personal consumption increased. Most of the recession weakness was concentrated in the private investment sector where residential construction and business investment declined and a large liquidation of inventories occurred. During the last three months of 1974 business inventories accumulated at a seasonally adjusted annual rate of $18 billion. In the first quarter of 1975 the situation was reversed as business inventories were liquidated at a seasonally adjusted annual rate of $19 billion. In the second quarter the pace of liquidation accelerated to a level of $31.0 billion.

As spring progressed other significant economic improvements occurred. The annual rate of consumer price increases dropped from the double-digit level of 1974 to a 6 to 7 percent zone and the Tax Reduction Act of 1975 was passed in March. As a result, real disposable personal income increased during the second quarter following five consecutive quarterly declines. The turnaround of consumer purchasing power further strengthened personal spending and enabled people to improve their financial situations as the savings rate jumped from 7.5 percent during the first quarter to 10.6 percent in the second quarter. As these favorable developments pushed final sales above current levels of production, a runoff of inventories occurred beginning at the retail level and then spreading back through the system into the manufacturing sectors. New orders turned upward in April and inventories have started to rise once again at the retail level.

As economic conditions improved employment began to rise again in April. The "lay-off" rate has declined steadily each month through 1975 and the average number of hours worked and the amount of overtime have increased. The general measure of industrial production finally bottomed out in April and four consecutive months of expansion have been reported. Exports continued at a strong pace throughout this period and rising government spending has occurred at all levels. The long declines in residential construction and new car sales stopped in the spring and these two basic sectors are no longer dragging the economy down. The seasonally adjusted annual rate of new housing starts rose to 1260 thousand units in August, up from the low annual rate of 980 thousand units in April, and domestic automobile sales have steadily improved for several months. The rate of recovery in these two basic sectors has been sluggish but at least the negative results reported in 1974 and early in 1975 have been reversed.

It is now recognized that the turning point for the U.S. economy was reached sooner than expected -- probably by April or May -- and that the initial pattern of recovery has been somewhat stronger than anticipated. The public's general perception of the improving developments will continue to lag far behind actual events -- by as much as nine months or more according to some public opinion experts -- but the economic recovery does appear to be well underway. Perhaps the best overall measure of the recovery is the swing in "real" GNP -- the total output of goods and services with the effects of price changes removed -- from a sharp decline in the first quarter at an annual rate of 11.4 percent to a positive performance in the second quarter when output increased at an annual rate of 1.9 percent (both figures are seasonally adjusted).

The conclusion that the U.S. economy has started to recover does not mean that our fundamental economic problems have suddenly been solved or that we will not continue to suffer specific economic disappointments during the coming months. The present level of economic activity is still inadequate and we can never be satisfied until the current excessive levels of inflation and unemployment are substantially reduced. Even though some acceleration is likely to occur over the coming months if consumer spending remains strong, corporate profits improve and the stimulative effects of the investment tax credit are felt in 1976, business capital spending remains sluggish. Therefore, the outlook for residential construction and business capital investment suggests that the recovery pattern for the entire economy is likely to be moderate. But I also believe that improvement will be more sustainable if responsible fiscal and monetary policies are supported.

Unfortunately, the hoped-for recovery of residential construction and business investment will be hampered by the disruptive impact of massive Federal debt financing requirements. Although some analysts assume that the financial needs of an economic recovery can be automatically filled, the reality is that mortgages, consumer debt and business spending for fixed investment and inventories must compete against unprecedented Treasury borrowing requirements which will continue throughout this year and into the future. Two weeks ago the Treasury announced that it would need to borrow new money totaling $44 to $47 billion during the second half of Calendar Year 1975. When these anticipated needs are added to the $36.1 billion actually raised during the first half of Calendar Year 1975 the annual total rises to $80 to $83 billion. This excludes new money raised by the issuance of guaranteed securities and Government-sponsored agencies which we estimate at $6.0 billion and $3.0 billion respectively in the current calendar year.

We have substantial refunding requirements this year. Apart from the rollover of the $77 billion of privately-held regular weekly and monthly bills, $23.0 billion of privately-held U. S. Treasury coupon issues will be refunded this year.

The heavy Treasury borrowing requirements have become the dominant factor in the financial markets at the same time that private sector needs are expected to increase. The severity of the recession, particularly the rapid runoff of inventories, has moderated the private demand for credit. enabling the Treasury needs to be met, but there is already clear evidence that some firms have been unable to obtain desired financing and even successful borrowers have had to pay historically-high interest rates. The future pace of the economic recovery will depend upon the availability of credit across the broad spectrum of economic activity. If specific sectors, such as residential construction, or large numbers of businesses who do not have top-level credit ratings, are unable to obtain necessary financing both the strength and sustainability of the recovery will be disappointing. The impact of such large Treasury borrowing needs resulting from the deficits must receive greater attention in preparing general economic forecasts since we can have only as much economic expansion as available financing will support. This was the basis of our warnings about the financial disturbances of restricted access to funds and rising interest rates that would result when private borrowing needs generated by the recovery have to compete against Treasury borrowing. Unfortunately, financial market developments already indicate that these problems are occurring.

We must also be concerned about renewed inflation pressures. The slowdown in the rate of price increases during the first half of 1975 was reversed by the disappointing statistics reported for June and July. While those specific monthly statistics were not an accurate representation of the underlying rate of inflation -- just as the 0.2 percent increase in the CPI for August was an aberration on the low side -- most analysts now anticipate that inflation will persist in the 6 to 8 percent zone. That level of inflation is clearly inconsistent with our Nation's other basic economic goals. Because these inflation pressures have been accumulating for many years actions to correct them will require a sustained effort.

A third problem involves the unacceptable level of current unemployment which is the direct result of the recession. Although large employment gains have occurred since April, the unemployment rate is still in the 8-1/2 percent zone. Further progress in reducing the level of unemployment is expected as the economic recovery moves back to full activity. For several quarters real output will actually exceed the long-term target growth rates.

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During the transition period, it has been necessary to sharply increase the funds allocated to manpower programs, public service employment, unemployment compensation benefits and other social programs to alleviate the recession's impact. But I hope that we will avoid the traditional errors of overheating the entire economy by adopting policies of excessive fiscal and monetary stimulus. That approach might temporarily contribute to the reduction of the unemployment rate but the "stop-go" patterns of the past indicate that excessive stimulus eventually tends to create more problems than solutions.

Considering all of the pluses and minuses, it is clear that we are well into an economic recovery which should accelerate as we move into 1976. However, the strength and durability of this recovery is not certain -- particularly if a renewed surge of price increases or the expectations of inflation disrupt the pattern of economic activity. The amount of actual slack in the economy is uncertain and policy makers should not underestimate the strength of the economic recovery. Extensive stimulus has already been provided by the widespread increase in Federal outlays, the recent tax cut and monetary actions. Monetary policies have been responsive as the money supply (M_1) has increased at an annual rate of 8.6 percent over the past seven months since mid-February. A broader money supply measure, which includes net time deposits (M_2), increased at an annual rate of 11.3 percent over the same time period. Specific money supply growth rates tend to fluctuate widely from week to week but the Federal Reserve System does appear to be following policies which will support the economic recovery. As to fiscal policies, the large tax cut passed in March provided tax relief of $22.8 billion and Federal outlays increased from $268.4 billion in FY 1974 to $324.6 billion in FY 1975, a gain of 21 percent. If outlays in FY 1976 actually rise to the level of $368.2 billion recommended by your Committee in its report of April 14, 1975, that would mean that Federal spending would have increased $100 billion in just two fiscal years, a two-year percentage jump of 37.2 percent. This surge of spending created a huge Federal budget deficit of $43.6 billion in FY 1975 and the shortfall for the current fiscal year will be even larger. In February 1975 the President submitted a budget which called for a FY 1976 Federal deficit of $51.9 billion. The Mid-Session Review of the 1976 Budget published May 30 raised the anticipated deficit to $59.9 billion. In the First Concurrent Resolution on the Budget-Fiscal Year 1976 submitted as a Conference Report to the Congress on May 9, a deficit of $68.8 billion was recommended. Unless the Executive Office and the Congress cooperate in tough and responsible action to control Federal spending the prospective deficit could even escalate to $90 billion and the outlook for future years is for more Federal budget deficits. The challenge is clear.

In addition to the substantial increases in the size of our budget deficits I am particularly concerned about the rapid increase in expenditures. As summarized in Table 1, Federal outlays increased from $97.8 billion in FY 1961 to $324.6 billion in FY 1975, an increase of 232 percent. From 1961 to mid-1975 the entire GNP increased from $520.1 billion to $1440.9 billion, a gain of 177 percent (the mid-1975 figure is the GNP figure reported for the second quarter at a seasonally adjusted annual rate). The Federal budget has clearly grown more rapidly than the total U.S. economy. These budget outlay increases -- including the changes in FY 1976 -- are spread throughout the Government and tend to become permanent. If we are to have the necessary fiscal flexibility to meet our current and future priorities, we must regain control over Federal outlays.

II. FEDERAL REVENUE ESTIMATES

Turning next to the important topic of Federal revenues, I would first like to describe the analytical techniques used by the Department of the Treasury and then discuss our most recent estimates. Within the Treasury the estimating functions are assigned to an Assistant Director of the Office of Tax Analysis and a staff of five professionals whose duties are divided between the preparation of general receipts estimates and the analysis of specific revenue changes that might result from proposed tax legislation initiatives.

The beginning point for our estimates is the preparation of detailed GNP forecasts by the professional staffs of the Treasury, Council of Economic Advisers and Office of Management and Budget. Using these general forecasts of national output and information obtained from various sources the Treasury then prepares monthly collection estimates for several major categories. We also revise the estimates at the beginning of each month to reflect current collection experiences. Finally, the potential impact of any proposed or recently enacted tax legislation is added or subtracted from the basic estimates. Legislative changes are handled directly because the time series information used in the calculations would not include the effects of new tax initiatives.

The tax collection experience of the past five years is summarized in Table 2. Over the five-year period, Fiscal Years 1971 through 1975, individual income taxes accounted for 45 percent of all unified budget revenues, corporate income taxes for 15 percent, social insurance taxes and contributions (consisting of "employment taxes and contributions," "unemployment insurance" and "contributions for other insurance and retirement") accounted for 28 percent and all other sources combined represented the remaining 12 percent. It is also interesting to note the relative stability of each source of revenue as a share of the total even though economic conditions and specific tax legislation change over time.

The methods used for estimating each major source of revenues are as follows:

Individual income taxes -- The individual tax receipts model includes: (1) an equation which estimates current calendar year liabilities, other than capital gains taxes, as a function of personal incomes adjusted to eliminate transfer payments and other labor income and to add the employee payments for social insurance; (2) an equation which estimates current realized capital gains subject to taxation; and (3) an equation which estimates the withheld tax liabilities as a function of quarterly wage and salary figures. The amount of withholding collections must be estimated on a current monthly basis and the income tax withholding must be separated from the social security withholding. There are significant time differences between the tax liability period and the payment date for different payment methods. The model also develops estimates by source of individual tax payments, including refunds, and converts the figures into a monthly and fiscal year collection pattern.

The income tax liability for a given calendar year is estimated by benchmarking on the last actual year. On the basis of past experience, the change from the benchmark year liability is then estimated by correlation with the projected change in personal income (adjusted to a concept of income subject to tax). This gives an estimate of the tax liability excluding the tax on capital gain income. Capital gains, which are not included in the concept of personal income are volatile and often change in opposition to changes in personal income. They are, therefore, treated separately. Even so, estimated capital gains are only approximations for the calendar years in which stock prices and market volume are known. For future years the estimates are subjective.

The estimated total individual income tax liability for the calendar year is then broken down by major method of payment, including refunds, on the basis of historical relationships. Withheld taxes are estimated by means of relationship to salaries and wages by quarters. Refunds are estimated as a percentage of withheld taxes. Payments other than withheld taxes are estimated as a residual after subtracting withheld taxes less refunds from the total liability estimate. This residual is then broken down into estimated tax payments, payments on final tax returns and back taxes, again on the basis of past relationships. All of the past data have to be further adjusted for changes in tax law in order to obtain meaningful relationship. Considerable uncertainty in the relative proportionalities has been introduced in recent years. In the past decade, rarely have there been two years, back to back, in which the methods of payments have not been affected by legislative and administrative changes.

Corporation income taxes -- This model begins with an estimate of calendar year corporate profits before taxes as measured in the national income accounts. The next step is to determine the overall tax rate percentage to apply to the profit estimates. The actual percentage collected will vary according to the mix of economic activity, accounting policies and differences between gross and net tax liabilities. The third step is to determine the "collections lag" which will determine which fiscal year the estimated gross liability will apply to. Finally, the size of corporate income tax refunds must be estimated based on an analysis of the expected tax liabilities and the timing of economic recessions and recoveries. Greater percentage errors occur in preparing corporate income tax collection estimates because the basic variables are more volatile and the availability of information is not as good. Unfortunately, there have been only two or three years in the past twenty-five in which there was no statutory change in the coverage or timing of current estimated payments. In addition, corporations are allowed three methods of computation in determining whether they complied: (1) a current estimate for the year if within 80 percent, (2) annualization as the year progresses if within 80 percent, and (3) the preceding year's tax. This mix results in variations in the pattern apart from the statutory changes and increases in forecasting difficulty. In any event, past collection patterns modified by recent collection experience and expected pattern alterations form the basis for collection forecasts, monthly and for the fiscal year or years. There is a good deal of intuition and judgment in the final result.

Employment taxes and contributions -- This category includes FICA, SECA (for self-employed), deposits by states of their employee-paid portion of social security taxes for covered state employees, Federal employer deposits of employees share of social security taxes for Federal employees not covered by the retirement system, railroad retirement taxes, and premiums for uninsured participants enrolled in the Federal hospital insurance trust fund. The annual estimates of liabilities and receipts, except for railroad retirement taxes, are made by the Social Security Administration and then Treasury produces quarterly and monthly collection estimates.

Unemployment insurance premiums -- The Department of Labor normally prepares estimates of collections although Treasury may occasionally prepare internal revisions based on employment data and historical experience.

Contributions for other insurance and retirement programs -- Various government agencies are responsible for preparing estimates of collections related to programs under their jurisdiction and these figures are collected by the Office of Management and Budget and then given to the Treasury. We then prepare monthly collection estimates based on historical experience.

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Excise taxes -- Historical experience is used to forecast excise tax collections with some effort to anticipate future income levels. Annual estimates of the various trust fund excise taxes are jointly prepared by the Treasury and the responsible government agency.

Estate and gift taxes -- Estimates are based on stock prices and historical experience.

Customs duties -- Estimates are based on current levels of GNP results.

Miscellaneous receipts -- Deposited earnings of the Federal Reserve System accounted for nearly 90 percent of the miscellaneous receipts in FY 1975. The only other major source of miscellaneous revenue in FY 1976 is the import fee and tariff on crude oil and petroleum products. This figure is based on estimates of future imports, prices and demand assumptions.

In general, the Treasury is responsible for the overall estimates of revenues but it must obtain necessary economic forecasts and information from a variety of outside sources. This procedure obviously creates the possibility that revenue estimates may turn out to be inaccurate because of errors: (1) in preparing the forecast of GNP; (2) in estimating the mix of economic activity as a basis for predicting personal incomes and expenditures, business spending and profits, unemployment, government transfer payments, etc.; and (3) in applying the equations developed within the Treasury for estimating probable revenues. Unfortunately, the underlying economic conditions constantly change and tax legislation is modified rather frequently. For example, the FY 1975 budget estimated that personal incomes would total $1,135 billion in 1974. The latest figure, which is still subject to further revision, is reported to be $1,150 billion. The $15 billion underestimate would create an error in estimating individual income tax receipts of at least $2 billion. Similarly, the FY 1975 budget forecast for 1974 corporate profits was underestimated by $17 billion, according to the current figures. That underestimate would generate an error of roughly $5 billion in estimating receipts.

Public and private economic forecasters have experienced great difficulty in predicting both the total GNP and major sectors. No matter how sophisticated our forecasts become, they will still be distorted by unexpected economic and political developments. In the final analysis we must recognize that complex mathematical models and careful human judgments must be combined to estimate future results which will ultimately be influenced by many unforseen developments.

It is also true that the tax law is constantly changing. The econometric models used for preparing the estimates attempt to apply equations to a time series of information in order to project future revenues. Unfortunately, it is difficult to develop these historical relationships because the tax law is changed so often and the specific collection and reporting procedures are frequently adjusted. To the extent that proposals in the President's budget prepared each January are modified, rejected or replaced by other actions, the revenue estimates will be disrupted.

The actual historical record for estimating errors in forecasting Federal receipts and outlays is summarized in Table 3. That record indicates that both under- and over-estimates have occurred over the years and that estimating errors persist even as the time horizon of the forecast shortens. For FY 1975 the Federal Budget revenues were overestimated by 5.0 percent in the original publication in January 1974 and outlays were underestimated by 6.2 percent (estimates prepared eighteen months prior to end of FY 1975 on June 30, 1975). In January 1975, at the mid-point of the forecast year, receipts were underestimated by 0.8 percent while outlays were underestimated by 3.5 percent. These errors are attributable to at least three major factors: (1) large changes in the underlying economic forecasts; (2) legislative actions; and (3) internal reestimates of the outlays and receipts as the year progressed. In summary, it is clear that economic forecasting -- including the estimating of Federal Budget revenues -- is far from qualifying as an exact science. The Treasury will continue to work with the best technical methods known to us and we will strive to refine our judgments as much as possible but the blunt fact that Federal budget revenue forecasts will continue to be subject to errors should be recognized by everyone.

In the Mid-session review of the 1976 Budget published May 30, revenues for FY 1976 were estimated to be $299.0 billion. Our latest estimates of expected FY 1976 revenues fall within a range of $297.6 to $305.6 billion. In preparing these estimates several key assumptions must be made as to future decisions concerning the Tax Reduction Act of 1975, tax withholding rates and various energy policy issues, including the status of the $2.00 oil import fee and the $0.60 fee applied to products. If the $2.00 oil import fee is continued (but not the product levy) and the tax relief provided by the 1975 Tax Reduction Act is discontinued, the revenue estimates would be at the high end of the range indicated. If the tax relief is extended, along with adjustments to the withholding rates to maintain the amounts of taxes withheld (at current levels), and the $2.00 oil import fee is not continued, then the revenues collected would probably be at the low end of the range. Since the final decisions may combine different variations of several different policies we believe that it is more realistic to estimate a range of possible collection figures.

It should be emphasized that these revenue estimates are still very tentative and contingent upon the basic decisions about tax and energy policies referred to above. In addition to the legislative uncertainties, a number of forecasting problems have complicated our FY 1976 revenue estimates:

1. The underlying forecasts for total GNP, personal income corporate profits, personal consumption, business investment, foreign trade and other important economic sectors are still uncertain at this early stage of the economic recovery. Even a small percentage change in these basic figures has a major impact on the actual taxes collected.

2. Possible inaccuracies in estimating individual capital gains (1974 figures will not be available until late 1975).

3. The potential effects of corporate net losses in calculating refunds is uncertain. It should also be emphasized that corporate accounting practices have frequently changed. For example, many companies have changed their accounting for inventories from a FIFO to a LIFO basis and such adjustments have had a major impact on the timing of tax collection.

4. Uncertainties about the receipts lag in collecting corporate tax liabilities given the flexibility corporations have in paying their taxes and the sharp drop in profits in calendar year 1975 measured on a National Income Accounts basis.

5. Uncertainties about the probable behavior of individuals in adjusting their personal claims for exemptions in order to adjust the amount of taxes currently withheld.

III. SUMMARY

Although the U.S. economy appears to be well into a period of economic recovery a very large Federal deficit will occur in FY 1976 and FY 1977 following the deficit of $43.6 billion in FY 1975. These unusual deficits result from: (1) an erosion of current tax revenues caused by the severe economic recession; (2) a temporary increase in Federal outlays intended to moderate the impact of the recession; (3) a permanent type increase in Federal outlays resulting from past legislative decisions and the initiation of new spending programs; and (4) the tax relief provided by the temporary Tax Reduction Act of 1975. The return to strong economic activity will restore the tax collections to a more normal level and reduce the temporary outlays directly related to the recession but this will not solve the fundamental erosion of fiscal stability caused by the rapid escalation of Federal spending and periodic permanent tax cuts.

Some analysts have claimed that the budget deficits of FY 1975 and FY 1976 are merely aberrations which will disappear once the economy returns to a normal pace. Unfortunately, the historical pattern of Federal budget deficits and the outlook for future fiscal years does not support this optimistic conclusion. At the end of FY 1976 we will record the fifteenth Federal Budget deficit in the last sixteen years. Furthermore, the pattern of increased Federal spending is not concentrated in the "temporary" automatic stabilizers associated with the recession. As summarized in Table 4, large spending increases have occurred throughout the permanent programs of the entire government. Even the emergency programs created for temporary relief tend to become part of the permanent activities of government.

The rapid increase in Federal outlays is not necessarily wrong if one agrees that more functions should be transferred from the private sector to the government. My strong preference is to maximize the role of the private sector because I believe that it is more efficient and responsive to the interests of our people and because I believe this approach provides for more individual freedom. This debate will continue and we cannot hope to resolve it during these hearings. However, one basic consideration is indisputable: When the combination of private and public sector demands exceeds the productive capacity of our economy an inflationary overheating of the economic system occurs. The total productive capability of the entire economy must be identified as a beginning point for ranking and selecting claims against the potential national output. Estimating the total economic capacity of the system and the existing private and public claims would help us avoid the simplistic arguments that additional government programs can be continuously created to meet every claim by simply shifting resources from the private to the public sector. Adding new government commitments is not feasible if the productive capacity of the economy is exceeded. This basic guideline has been frequently violated as total demand has increased too rapidly for the economic system to absorb. When this happens the economy begins a boom and bust sequence with severe inflation and unemployment distortions, such as occurred in the mid-1960's and again during the early 1970's.

Some analysts have claimed that adding new government spending programs is no threat because of the amount of slack created in the economic system by the severe recession. Beyond the fact that our measures of capacity and excess resources are very uncertain, I believe that this recommendation misses the basic point: The fiscal decision of the past have already eroded our fiscal flexibility in responding to the problems of the present and the future. If we accept the recommendations to expand Federal spending even more we will create permanent claims that will further disrupt the allocation of resources in the future. Many government programs now involve an "entitlement authority" which makes the actual outlays open-ended depending upon the eligibility rules and benefits established. There has been a tendency to liberalize both guidelines and many government programs are now indexed so that they rise automatically as inflation occurs. Other outlays are required by specific legislative and contractual agreements. In the future, there should be no such thing as an "uncontrollable" Federal budget commitment because the Congressional Budget Committee discipline will require careful consideration of priorities and the elimination of ineffective programs during the annual appropriations process. We must correct the historical approach of merely continuing existing programs so that any new claims were typically "added on" to current outlays.

I believe that by concentrating on short-term stabilization goals rather than the long-term allocation of resources our fiscal policies have actually become a disruptive force. Too often fiscal policies have lagged economic developments so that the desired stimulus or restraint typically arrives long after the economic situation has changed. The "emergency" spending programs created to pull the economy out of a recession often exaggerate the subsequent overheating of the economy and create additional commitments that last far into the future. A corresponding reduction of such programs during periods of economic expansion is unusual because the Executive Office and the Congress have been unwilling to shift their attention to longer-term goals or to face up to the agonizing experience of saying no.

This country now faces the reality of a strong challenge to our basic fiscal stability. Your Committee is a key factor in determining whether or not this challenge will be met. In preparing your Second Concurrent Resolution to Congress I hope that you will consider the future course of fiscal policies -- particularly the escalating pattern of Federal spending and "off-budget" commitments -- as well as the need to develop guidelines for FY 1976. We need to consider longer-term goals by relating the future impact of current government spending actions. When we consider the total impact of our fiscal decisions we will recognize that individual pieces of legislation cannot simply be added to existing commitments without considering what current claims need to be eliminated or curtailed. Too often we have ignored the economic discipline of allocating scarce resources to different claims according to national priorities which are responsive to the interests of the American public. The economic distortions of the past decade indicate that this was a costly decision. Your Committee has a major opportunity to help correct these distortions and I look forward to working with you as you attempt to achieve that goal. Thank you.

TABLE 1

FEDERAL BUDGETS

CHANGES IN THE UNIFIED BUDGET OUTLAYS

BY FISCAL YEAR, 1961-1976

(dollars in billions)

'iscal Year over Preceding Year	Federal Outlays	Dollar Increase	Percentage Increase	Surplus or Deficit
1961	$ 97.8	$ 5.6	6.1	-3.4
1962	106.8	9.0	9.2	-7.1
1963	111.3	4.5	4.2	-4.8
1964	118.6	7.3	6.1	-5.9
1965	118.4	-0.2	--	-1.6
1966	134.7	16.3	13.8	-3.8
1967	158.3	23.6	17.5	-8.7
1968	178.8	20.5	13.0	-25.2
1969	184.5	5.7	3.2	+3.2
1970	196.6	12.1	6.6	-2.8
1971	211.4	14.8	7.5	-23.0
1972	231.9	20.5	9.7	-23.2
1973	246.5	14.6	6.3	-14.3
1974	268.4	21.9	8.8	-3.5
1975	324.6	56.2	20.9	-43.6

Source: Economic Report of the President, February 1975, Table C-64, p.324, for years 1961 through 1974; 1975 figure from Final Monthly Treasury Statement of Receipts and Outlays of the United States Government, for period from July 1, 1974 through June 30, 1975.

TABLE 2

Net Unified Budget Receipts, by Source, Percent of Total, and Five-year Average
Fiscal Years 1971-1975

	1971	1972	1973	1974	1975	5-year average
Fiscal Year ($ billions)						
Individual income tax	86.2	94.7	103.2	119.0	122.4	105.1
Corporation income tax	26.8	32.2	36.2	38.6	40.6	34.9
Employment taxes and contributions	41.7	46.1	54.9	65.9	75.2	56.8
Unemployment insurance	3.7	4.4	6.1	6.8	6.8	5.5
Contributions for other insurance and retirement	3.2	3.4	3.6	4.1	4.5	3.8
Excise taxes	16.6	15.5	16.3	16.8	16.6	16.3
Estate and gift taxes	3.7	5.4	4.9	5.0	4.6	4.7
Customs duties	2.6	3.3	3.2	3.3	3.7	3.2
Miscellaneous receipts	3.9	3.6	3.9	5.4	6.7	4.7
Total budget receipts	188.4	208.6	232.2	264.9	281.0	235.0
Fiscal Year - Percent						
Individual income tax	45.8%	45.4%	44.5%	44.9%	43.6%	44.7%
Corporation income tax	14.2	15.4	15.6	14.6	14.5	14.8
Employment taxes and contributions	22.1	22.1	23.6	24.9	26.8	24.1
Unemployment insurance	2.0	2.1	2.6	2.6	2.4	2.4
Contributions for other insurance and retirement	1.7	1.6	1.6	1.5	1.6	1.6
Excise taxes	8.8	7.4	7.0	6.4	5.9	7.0
Estate and gift taxes	2.0	2.6	2.1	1.9	1.6	2.0
Customs duties	1.4	1.6	1.4	1.3	1.3	1.4
Miscellaneous receipts	2.0	1.7	1.7	2.0	2.4	2.0
Total budget receipts	100.0	100.0	100.0	100.0	100.0	100.0

Office of the Secretary of the Treasury
Office of Tax Analysis

September 18, 1975

Note: Figures are rounded and may not add to totals.

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TABLE 3

Budget Estimating Errors

Fiscal year	Overestimate (+) or Underestimate (-) as a Percent of the Actual Figure			
	Estimates made 18 months prior to the end of the fiscal year		Estimates made 6 months prior to the end of the fiscal year	
	Outlays	Receipts	Outlays	Receipts
1950 1/	+4.1	+10.3	+7.8	+1.9
1960 1/	-0.3	-1.7	+1.6	+0.2
1970 2/	-0.7	+2.6	+0.7	+2.9
1971 2/	-5.0	+7.3	+0.6	+3.1
1972 2/	-1.1	+4.3	+2.0	-5.2
1973 2/	-0.1	-4.9	+1.3	-3.1
1974 2/	+0.1	-3.4	+2.3	+1.9
1975 2/	-6.2	+5.0	-3.4	-0.8

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Office of Tax Analysis

September 19, 1975

1/ Administrative budget.

2/ Unified budget. The first estimate on a unified budget basis was prepared in January 1968.

TABLE 4

CHANGES IN BUDGET OUTLAYS BY FUNCTION; FY 1976 over FY 1975

(millions of dollars)

Function	FY 1975 (1)	FY 1976 (2)	Change over FY 1975	House Budget Committee Resolution (3)	
				FY 1976	Change over FY 1975
National defense	87.4	94.1	+6.7	89.7	+2.3
International affairs	5.0	5.5	+0.5	4.9	-0.1
General science, space, and technology	4.3	4.6	+0.3	4.6	+0.3
Natural resources, environment and energy	9.7	10.3	+0.6	11.5	+1.8
Agriculture	1.8	2.0	+0.2	1.8	--
Commerce and transportation	12.6	15.7	+3.1	19.8	+7.2
Community and regional development	4.6	6.1	+1.5	9.5	+4.9
Education, manpower and social services	15.0	16.8	+1.8	20.4	+5.4
Health	27.6	29.0	+1.4	30.7	+3.1
Income security	109.1	122.8	+13.7	123.9	+14.8
Veterans benefits and services	16.7	17.1	+0.4	17.4	+0.7
Law enforcement and justice	3.0	3.3	+0.3	3.4	+0.4
General government	2.7	3.2	+0.5	3.4	+0.7
Revenue sharing and general purpose fiscal assistance	7.0	7.3	+0.3	7.2	+0.2
Interest	31.2	34.4	+3.2	35.0	+3.8
Allowances	--	6.8	+6.8	1.1	+1.1
Undistributed offsetting receipts	-14.1	-20.0	+5.9	-16.2	+2.1
Total	323.6	358.9	+35.3	368.2	+44.6

(1) Mid-Session Review of the 1976 Budget, May 30, 1975, Table 9, p.15.

(2) FY 1976 Administration estimates as published in Mid-Session Review of the 1976 Budget.

(3) First Concurrent Resolution on the Budget-Fiscal Year 1976, Report of the Budget, House of Representatives, Appendix A-2, p.49.

the Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE September 29, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.0 billion of 13-week Treasury bills and for $ 3.1 billion of 26-week Treasury bills, both series to be issued on October 2, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 2, 1976			26-week bills maturing April 1, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.341 a/	6.492%	6.71%	96.480 b/	6.963%	7.34%
Low	98.319	6.578%	6.80%	96.464	6.994%	7.37%
Average	98.327	6.547%	6.77%	96.471	6.980%	7.36%

a/ Excepting 1 tender of $500,000
b/ Excepting 2 tenders totaling $20,000

Tenders at the low price for the 13-week bills were allotted 11%.
Tenders at the low price for the 26-week bills were allotted 5%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 62,060,000	$ 61,060,000	$ 75,920,000	$ 18,920,000
New York	3,124,615,000	2,263,685,000	4,659,175,000	2,727,780,000
Philadelphia	55,865,000	31,415,000	14,820,000	14,820,000
Cleveland	111,365,000	81,365,000	175,500,000	18,500,000
Richmond	51,630,000	45,180,000	57,875,000	13,875,000
Atlanta	39,395,000	39,395,000	26,850,000	23,000,000
Chicago	372,975,000	175,075,000	327,360,000	96,350,000
St. Louis	62,025,000	56,025,000	48,410,000	19,410,000
Minneapolis	25,940,000	23,940,000	64,845,000	17,495,000
Kansas City	47,855,000	45,855,000	31,945,000	21,570,000
Dallas	52,245,000	52,245,000	23,970,000	13,470,000
San Francisco	148,275,000	124,925,000	254,995,000	116,995,000
TOTALS	$4,154,245,000	$3,000,165,000 c/	$5,761,665,000	$3,102,185,000 d/

c/ Includes $462,445,000 noncompetitive tenders from the public.
d/ Includes $247,165,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SENATE BUDGET COMMITTEE
10:00 A.M. SEPTEMBER 30, 1975

Mr. Chairman and Members of this distinguished Committee:

I am pleased to appear before you this morning to review current economic conditions and policies. My analysis will hopefully contribute to a broader understanding of the economic recovery now underway and the importance of sustaining responsible policies required for achieving both our near-term goals regarding inflation, unemployment and national output as well as our long-term objective of creating a more stable economy.

The past decade has been an unusually difficult period as our policy flexibility has been increasingly restricted by the lagged impact of past decisions. In particular, great concern has developed about the impact of Federal spending and tax policies as outlays have accelerated more rapidly than the overall growth of the economy and chronic Federal deficits have occurred. The First Concurrent Resolution to Congress was a constructive step in providing general economic and spending guidelines. However, the real test is yet to come as the specific actions of individual appropriation committees must be adjusted to conform to the targets to be established by the Second Concurrent Resolution to Congress. I look forward to working with you in preparing these important fiscal policy recommendations which will directly affect the current recovery and the future of the U.S. economy.

1. ECONOMIC OVERVIEW

The United States has developed the most productive and creative economic system in the world. Americans have traditionally experienced rising standards of living as real output has increased, inflation pressures have been relatively moderate and employment opportunities have expanded. However, the performance of the U.S. economy during the past decade has been disrupted by recurring booms and recessions caused by inappropriate fiscal and monetary policies. The resulting excessive rates of inflation and unemployment created serious domestic economic distortions and eventually disrupted the balance of the international system. No matter how well-intentioned the original fiscal and monetary actions may have been, the resulting sequence of overheating and accelerating inflation, followed by periods of recession unemployment, has been a heavy price to pay for temporary economic benefits.

In planning economic policies for 1975 the Administration believed that recovery would begin by midyear if three fundamental adjustments could be accomplished: (1) the unwanted accumulation of inventories could be liquidated and new orders increased; (2) "real incomes" of consumers could be restored by reducing the double-digit level of inflation and initiating tax reductions and rebates which would stimulate personal consumption; and (3) employment would begin to increase rapidly enough to reduce the unemployment rate and strengthen consumer confidence. Fortunately, these adjustments have occurred.

During the first three months of 1975 the real output of goods and services continued to decline at a seasonally adjusted annual rate of 11.4 percent but economic performance was already beginning to shift as personal consumption increased. Most of the recession weakness was concentrated in the private investment sector where residental construction and business investment declined and a large liquidation of inventories occurred. During the last three months of 1974 business inventories accumulated at a seasonally adjusted annual rate of $18 billion. In the first quarter of 1975 the situation was reversed as business inventories were liquidated at a seasonally adjusted annual rate of $19 billion. In the second quarter the pace of liquidation accelerated to a level of $31.0 billion.

As spring progressed other significant economic improvements occurred. The annual rate of consumer price increases dropped from the double-digit level of 1974 to a 6 to 7 percent zone and the Tax Reduction Act of 1975 was passed in March. As a result, real disposable personal income increased during the second quarter following five consecutive quarterly declines. The turnaround of consumer purchasing power further strengthened personal spending and enabled people to improve their financial situations as the savings rate jumped from 7.5 during the first quarter to 10.6 percent in the second quarter. As these favorable developments pushed final sales above current levels of production, a runoff of inventories occurred beginning at the retail level and then spreading back through the system into the manufacturing sectors. New orders turned upward in April and inventories have started to rise once again at the retail level.

As economic conditions improved employment began to rise again in April. The "lay-off" rate has declined steadily each month through 1975 and the average number of hours worked and the amount of overtime have increased. The general measure of industrial production finally bottomed out in April and four consecutive months of expansion have been reported. Exports continued at a strong pace throughout this period and rising government spending has occurred at all levels. The long declines in residential construction and new car sales stopped in the spring and these two basic sectors are no longer dragging the economy down. The seasonally adjusted annual rate of new housing starts rose to 1260 thousand units in August, up from the low annual rate of 980 thousand units in April, and domestic automobile sales have steadily improved for several months. The rate of recovery in these two basic sectors has been sluggish but at least the negative results reported in 1974 and early in 1975 have been reversed.

It is now recognized that the turning point for the U.S. economy was reached sooner than expected--probably by April or May--and that the initial pattern of recovery has been somewhat stronger than anticipated. Perhaps the best overall measure of the recovery is the swing in "real" GNP--the total output of goods and services with the effects of price changes removed--from a sharp decline in the first quarter at an annual rate of 11.4 percent to a positive performance in the second quarter when output increased at an annual rate of 1.9 percent (both figures are seasonally adjusted).

The conclusion that the U.S. economy has started to recover does not mean that our fundamental economic problems have suddenly been solved or that we will not continue to suffer specific economic disappointments during the coming months. The present level of economic activity is still inadequate and we can never be satisfied until the current excessive levels of inflation and unemployment are substantially reduced.

Unfortunately, the hoped-for recovery of residential construction and business investment will be hampered by the disruptive impact of massive Federaldebt financing requirements. Although some analysts assume that the financial needs of an economic recovery can be automatically filled, the reality is that mortgages, consumer debt and business spending for fixed investment and inventories must compete against unprecedented Treasury borrowing requirements which will continue throughout this year and into the future. Two weeks ago the Treasury announced that it would need to borrow new money totaling $44 to $47 billion during the second half of Calendar Year 1975. When these anticipated needs are added to the $36.1 billion actually raised during the first half of Calendar Year 1975 the annual total rises to $80 to $83 billion. This excludes new money raised by the issuance of guaranteed securities and government-sponsored agencies which we estimate at $6.0 billion and $3.0 billion respectively in the current calendar year.

We also have substantial refunding requirements. Apart from the rollover of the $77 billion of privately-held regular weekly and monthly bills, $23.0 billion of privately-held U.S. Treasury coupon issues will be refunded this year.

The heavy Treasury borrowing requirements have become the dominant factor in the financial markets at the same time that private sector needs are expected to increase. The severity of the recession, particularly the rapid runoff of inventories, has moderated the private demand for credit, enabling the Treasury needs to be met, but there is already clear evidence that some firms have been unable to obtain desired financing and even successful borrowers have had to pay historically-high interest rates. The future pace of the economic recovery will depend upon the availability of credit across the broad spectrum of economic activity. If specific sectors, such as residential construction, or large numbers of businesses who do not have top-level credit ratings, are unable to obtain necessary financing both the strength and sustainability of the recovery will be disappointing. The impact of such large Treasury borrowing needs resulting from the deficits must receive greater attention in preparing general economic forecasts since we can have only as much economic expansion as available financing will support. This was the basis of our warnings about financial disturbances involving restricted access to funds and rising interest rates that would result when private borrowing needs generated by the recovery have to compete against Treasury borrowing. Unfortunately, financial market developments already indicate that these problems are occurring.

We must also be concerned about renewed inflation pressures. The slowdown in the rate of price increases during the first half of 1975 was reversed by the disappointing statistics reported for June and July. While those specific monthly statistics were not an accurate representation of the underlying rate of inflation--just as the 0.2 percent increase in the CPI for August was an aberration on the low side--most analysts now anticipate that inflation will persist in the 6 to 8 percent zone. That level of inflation is clearly inconsistent with our Nation's other basic economic goals. Because these inflation pressures have been accumulating for many years actions to correct them will require a sustained effort.

A third problem involves the unacceptable level of current unemployment which is the direct result of the recession. Although large employment gains have occurred since April, the unemployment rate is still in the 8-1/2 percent zone. Further progress in reducing the level of unemployment is expected as the economic recovery moves back to full activity. For several quarters real output will actually exceed the long-term target growth rates.

II. ECONOMIC POLICIES

During the transition period, it has been necessary to sharply increase the funds allocated to manpower programs, public service employment, unemployment compensation benefits and other social programs to alleviate the recession's impact. But I hope that we will avoid the traditional errors of overheating the entire economy by adopting policies of excessive fiscal and monetary stimulus. That approach might temporarily contribute to the reduction of the unemployment rate but the "stop-go" patterns of the past indicate that excessive stimulus eventually tends to create more problems than solutions.

Considering all of the pluses and minuses, it is clear that we are well into an economic recovery which should accelerate as we move into 1976. However, the strength and durability of this recovery is not certain--particularly if a renewed surge of price increases or the expectations of inflation disrupt the pattern of economic activity. Extensive stimulus has already been provided by the widespread increase in Federal outlays, the recent tax cut and monetary actions. Monetary policies have been responsive as the money supply (M_1) has increased at an annual rate of 8.6 percent over the past seven months since mid-February. A broader money supply measure, which includes net time deposits (M_2), increased at an annual rate of 11.3 percent over the same time period. Specific money supply growth rates tend to fluctuate widely from week to week but the Federal Reserve System does appear to be following policies which will support the economic recovery.

(MORE)

As to fiscal policies, the large tax cut passed in March provided tax relief of $22.8 billion and Federal outlays increased from $268.4 billion in FY 1974 to $324.6 billion in FY 1975, a gain of 21 percent. If outlays in FY 1976 actually rise to the level of $367.0 billion recommended in the first concurrent resolution on the budget for Fiscal Year 1976, published May 9, that would mean that Federal spending will have increased $98.6 billion in just two fiscal years, a jump of 36.7 percent. This surge of spending created a huge Federal budget deficit of $43.6 billion in FY 1975 and the short-fall for the current fiscal year will be even larger. In February 1975 the President submitted a budget which called for a FY 1976 Federal deficit of $51.9 billion. The Mid-Session Review of the 1976 Budget published May 30 raised the anticipated deficit to $59.9 billion. In the First Concurrent Resolution to Congress on the Budget a deficit of $68.8 billion was recommended. Unless the Executive Order and the Congress cooperate in tough and responsible action to control Federal spending the prospective deficit could even escalate to $90 billion and the outlook for future years is for more Federal budget deficits. The challenge is clear.

In addition to the substantial increases in the size of our budget deficits I am especially concerned about the rapid increase in expenditures. As summarized in Table 1, Federal outlays increased from $97.8 billion in FY 1961 to $324.6 billion in FY 1975, an increase of 232 percent. From 1961 to mid-1975 the entire GNP increased from $520.1 billion to $1440.9 billion, a gain of 177 percent (the mid-1975 figure is the GNP figure reported for the second quarter at a seasonally adjusted annual rate). The Federal budget has clearly grown more rapidly than the total U.S. economy.

The second major variable in determining the size of the FY 1976 Federal Budget deficit will be the amount of revenues collected. The Department of the Treasury is responsible for estimating these revenues as a basis for planning fiscal policy. However, in preparing our revenue estimates we must rely upon general economic forecasts and collection data supplied by various government sources. This procedure obviously creates the possibility that revenue estimates may turn out to be inaccurate because of errors: (1) in preparing the underlying GNP forecast; (2) in estimating the mix of economic activity as a basis for predicting personal incomes and expenditures, business spending and profits, unemployment, government transfer payments, etc.; and (3) in applying the equations developed within the Treasury for estimating probably revenues. No matter how sophisticated our forecasting techniques become, they will still be distorted by unexpected economic and political developments.

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In addition to the usual technical problems of estimating revenues, there are currently many important decisions to be made about future tax and energy policies. Until these decisions are made it is impossible to prepare a single estimate of the probable revenue collections for FY 1976. Therefore, our latest estimates fall within a range of $297.6 to $305.6 billion. Actual collections will depend upon the future pattern of the economic recovery and several key assumptions about tax and energy policies.

1. If the Tax Reduction Act of 1975 is not extended and the $2.00 import fee on crude petroleum is continued (but not the $0.60 fee on imports of refined petroleum products), then estimated revenues are $305.6 billion.

2. If the Tax Reduction Act of 1975 is not extended and the $2.00 import fee on crude petroleum and the $0.60 fee on refined petroleum products are not continued, then estimated revenues are $303.6 billion.

3. If the major provisions of the Tax Reduction Act of 1975 are extended and the $2.00 import fee on crude petroleum is continued (but not the $0.60 fee on imports of refined petroleum products), then estimated revenues are $301.5 billion.

4. If the major provisions of the Tax Reduction Act of 1975 are extended and an additional adjustment is made in personal tax liabilities to maintain the current amount of taxes withheld and the $2.00 import fee on crude petroleum is continued (but not the $0.60 fee on imports of refined petroleum products), then estimated revenues are $299.6 billion.

5. If the major provisions of the Tax Reduction Act if 1975 are extended (but there is no adjustment of the withholding rate to maintain the current amounts of personal taxes withheld) and the $2.00 import fee on crude petroleum and the $0.60 fee imports of refined petroleum products are not continued, then estimated revenues are $299.5 billion.

6. If the major provisions of the Tax Reduction Act of 1975 are extended and an additional adjustment is made in personal tax liabilities to maintain the current amount of taxes withheld and the $2.00 import fee on crude petroleum and the $0.60

fee on imports of refined petroleum products are not continued, then estimated revenues are $297.6 billion.

III. SUMMARY

Although the U.S. economy appears to be well into a period of economic recovery a very large Federal deficit will occur in FY 1976 and FY 1977 following the deficit of $43.6 billion in FY 1975. These unusually large Federal deficits resulted from: (1) an erosion of current tax revenues caused by the severe economic recession; (2) a temporary increase in Federal outlays intended to moderate the impact of the recession; (3) a permanent type increase in Federal outlays resulting from past legislative decisions and the initiation of new spending programs; and (4) the tax relief provided by the temporary Tax Reduction Act of 1975. The return to strong economic activity will restore the tax collections to a more normal level and reduce the temporary outlays directly related to the recession but this will not solve the fundamental erosion of fiscal stability caused by the rapid escalation of Federal spending and periodic permanent tax cuts.

Some analysts have claimed that the budget deficits of FY 1975 and FY 1976 are merely aberrations which will disappear once the economy returns to a normal pace. Unfortunately, the historical pattern of Federal budget deficits and the outlook for future fiscal years does not support this optimistic conclusion. At the end of FY 1976 we will record the fifteenth Federal Budget deficit in the last sixteen years. Furthermore, the pattern of increased Federal spending is not concentrated only in the temporary automatic stabilizers associated with the recession. As summarized in Table 2, large spending increases have occurred throughout the entire government. Even the emergency programs created for temporary relief tend to become part of the permanent activities of government.

The rapid increase in Federal outlays is not necessarily wrong if one agrees that more functions should be transferred from the private sector to the government. My strong preference is to maximize the role of the private sector because I believe that it is more efficient and responsive to the interests of our people and because I believe this approach provides for more individual freedom. This debate will continue and we cannot hope to resolve it during these hearings. However, one basic consideration is indisputable: When the combination of private and public sector demands exceeds the productive capacity of our economy an inflationary overheating of the economic system occurs. Therefore, the total productive capability of the entire economy must be identified as a beginning point for ranking and selecting claims against the potential national output. Estimating the total economic capacity of the system and the existing private and public claim would help us avoid the simplistic arguments that additional government programs can be continuously created to meet every claim by simply shifting resources from the private to the public sector. Adding new government commitments is not feasible if the productive capacity of the economy is exceeded. This basic guideline has been frequently violated as total demand has increased too rapidly for the economic system to absorb. When this happens the economy begins a boom and recession sequence with severe inflation and unemployment distortions, such as occurred in the mid-1960's and again during the early 1970's.

Some analysts have claimed that adding new government spending programs is no threat because of the amount of slack created in the economic system by the severe recession. Beyond the fact that our measures of capacity and excess resources are very uncertain, I believe that this recommendation misses the basic point: The fiscal decisions of the past have already eroded our fiscal flexibility in responding to the problems of the present and the future. If we accept the recommendations to expand Federal spending even more rapidly we will create permanent claims that will further disrupt the allocation of resources in the future. Many government programs now involve an "entitlement authority" which makes the actual outlays open-ended depending upon the eligibility rules and benefits established. There has been a tendency to liberalize both guidelines and many government programs are now indexed so that they rise automatically as inflation occurs. Other outlays are required by specific legislative and contractual agreements. In the future, there should be no such thing as an "uncontrollable" Federal budget commitment because the Congressional Budget Committee discipline will require careful consideration of priorities and the elimination of ineffective programs during the annual appropriations process. We must correct the historical approach of merely "adding on" new claims to current outlays.

I believe that by concentrating on short-term stabilization goals rather than the long-term allocation of resources our fiscal policies have actually become a disruptive force. Too often fiscal policies have lagged economic developments so that the desired stimulus or restraint typically arrives long after the economic situation has changed. The emergency spending programs created to pull the economy out of a recession often exaggerate the subsequent overheating of the economy and create additional commitments that last far into the future. A corresponding reduction of such programs during periods of economic expansion is unusual because the Executive Office and the Congress have been unwilling to shift their attention to longer-term goals or to face up to the agonizing experience of saying no.

This country now faces the reality of a strong challenge to our basic fiscal stability. Your Committee is a key factor in determining whether or not this challenge will be met. In preparing your Second Concurrent Resolution to Congress I hope that you will consider the future course of fiscal policies -- particularly the escalating pattern of Federal spending and "off-budget" commitments -- as well as the need to develop guidelines for FY 1976. We need to consider longer-term goals by relating the future impact of current government spending actions. When we consider the total impact of our fiscal decisions we will recognize that individual pieces of legislation cannot simply be added to existing commitments without considering what current claims need to be eliminated or curtailed. Too often we have ignored the economic discipline of allocating scarce resources to different claims according to national priorities which are responsive to the interests of the American public. The economic distortions of the past decade indicate that this was a costly decision. Your Committee has a major opportunity to help correct these distortions and I look forward to working with you as you attempt to achieve that goal. Thank you.

TABLE 1

FEDERAL BUDGETS

CHANGES IN THE UNIFIED BUDGET OUTLAYS

BY FISCAL YEAR, 1961-1976

(dollars in billions)

Fiscal Year over Preceding Year	Federal Outlays	Dollar Increase	Percentage Increase	Surplus or Deficit
1961	$ 97.8	$ 5.6	6.1	-3.4
1962	106.8	9.0	9.2	-7.1
1963	111.3	4.5	4.2	-4.8
1964	118.6	7.3	6.1	-5.9
1965	118.4	-0.2	--	-1.6
1966	134.7	16.3	13.8	-3.8
1967	158.3	23.6	17.5	-8.7
1968	178.8	20.5	13.0	-25.2
1969	184.5	5.7	3.2	+3.2
1970	196.6	12.1	6.6	-2.8
1971	211.4	14.8	7.5	-23.0
1972	231.9	20.5	9.7	-23.2
1973	246.5	14.6	6.3	-14.3
1974	268.4	21.9	8.8	-3.5
1975	324.6	56.2	20.9	-43.6

Source: Economic Report of the President, February 1975, Table C-64, p.324, for years 1961 through 1974; 1975 figure from Final Monthly Treasury Statement of Receipts and Outlays of the United States Government, for period from July 1, 1974 through June 30, 1975.

TABLE 2

CHANGES IN BUDGET OUTLAYS BY FUNCTION; FY 1976 OVER FY 1975

(millions of dollars)

Function	FY 1975 (1)	FY 1976 (2)	Change over FY 1975	Conference Report Recommendatio of Congressional Budget Committees (3)	
				FY 1976	Change over FY 1975
National defense --------------------------------	87.4	94.1	+6.7	90.7	+3.3
International affairs ----------------------------	5.0	5.5	+0.5	4.7	-0.3
General science, space, and technology ------------	4.3	4.6	+0.3	4.6	+0.3
Natural resources, environment and energy ---------	9.7	10.3	+0.6	11.6	+1.9
Agriculture ---------------------------------------	1.8	2.0	+0.2	1.8	--
Commerce and transportation ----------------------	12.6	15.7	+3.1	17.5	+4.9
Community and regional development----------------	4.6	6.1	+1.5	8.65	+4.05
Education, manpower and social services-----------	15.0	16.8	+1.8	19.85	+4.85
Health ---	27.6	29.0	+1.4	30.7	+3.1
Income security-----------------------------------	109.1	122.8	+13.7	125.3	+16.2
Veterans benefits and services--------------------	16.7	17.1	+0.4	17.5	+0.8
Law enforcement and justice-----------------------	3.0	3.3	+0.3	3.4	+0.4
General government--------------------------------	2.7	3.2	+0.5	3.3	+0.6
Revenue sharing and general purpose fiscal assistance	7.0	7.3	+0.3	7.2	+0.2
Interest--	31.2	34.4	+3.2	35.0	+3.8
Allowances ---------------------------------------	--	6.8	+6.8	1.2	+1.2
Undistributed offsetting receipts-----------------	-14.1	-20.0	+5.9	-6.2	+2.1
Total---------------------------------------	323.6	358.9	+35.3	367.0	+44.4

(1) Mid-Session Review of the 1976 Budget, May 30, 1975, Table 9, p.15.

(2) FY 1976 Administration estimates as published in Mid-Session Review of the 1976 Budget.

(3) Conference Report, 94th Congress, Report N.94-198, May 9, 1975.

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STATEMENT OF THE HONORABLE EDWARD C. SCHMULTS
UNDER SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY
COMMITTEE ON INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
REGARDING LOCKHEED AIRCRAFT CORPORATION'S
FOREIGN SALES ACTIVITIES AND THE
EMERGENCY LOAN GUARANTEE PROGRAM
SEPTEMBER 30, 1975, 2:00 P.M.

Mr. Chairman and Members of the Committee:

I am pleased to appear before this Committee, on behalf of the Emergency Loan Guarantee Board (the"Board"), of which I am the Executive Director and General Counsel, to testify on the payments made by the Lockheed Aircraft Corporation, ("Lockheed") to foreign officials and political organizations in connection with certain of its sales activities.

The Board has gone on record condemning illegal or unethical activities by American business, here and abroad, in the strongest terms and has expressed its deep concern about the possible improper use of Lockheed's corporate funds and its impact on the guarantee program.

Background on the Emergency Loan Guarantee Program

In August, 1971, The Emergency Loan Guarantee Act (the "Act")

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was passed for the purpose of providing guaranteed loan assistance to major corporations whose failure could have a material adverse impact on the economy. At that time, Lockheed was considered the most likely applicant for assistance. The Act created a Board composed of the Secretary of Treasury, who acts as Chairman, the Chairman of the Federal Reserve Board of Governors, and the Chairman of the Securities and Exchange Commission. The Board was authorized to guarantee loans, in the aggregate, of up to $250 million which guarantee was committed by the Board in September, 1971, to Lockheed's twenty-four commercial banks in the full amount. At the present time, Lockheed has borrowed $195 million under Government guarantee.

After the Board extended a government guarantee to Lockheed's lending banks, it then assumed the function of protecting the Government's interest in amounts advanced under the program. In this regard, the Board has sought to assess the risks associated with Lockheed's operations from a credit analysis standpoint, thereby minimizing the potential that the Government would be called upon to purchase the Guaranteed Notes issued by Lockheed to its banks.

Since becoming aware of the payments in issue, the Board has taken the position that it has a responsibility to make sure no further improper payments are made by Lockheed.

Before providing this Committee with a summary of the actions taken by the Board after becoming aware of this problem, let me review the circumstances under which the Board first learned that Lockheed had made payments to foreign officials and political organizations.

Lockheed Disclosure

In early June of this year, the Board's staff was orally advised by Lockheed that the company may have made payments to foreign officials in connection with marketing activities abroad. At this time Lockheed was in the process of preparing to mail proxy soliciting materials to its securityholders for its annual meeting scheduled on July 17. Although the proxy materials had been cleared by the Securities and Exchange Commission staff, the company's independent auditor, Arthur Young and Company, would not certify Lockheed's financial statements. A report which had appeared in the press on June 6 of an allegation by the Northrop Corporation that it had modeled a Swiss subsidiary utilized to facilitate payments to its agents after one established by Lockheed had triggered Arthur Young's inquiry. The auditor sought and was unable to obtain certifications disclaiming knowledge of any payments made by the company to foreign officials from certain senior management.

During early conversations between the Board's staff and Lockheed's financial officers, we were advised that the company and Arthur Young were reviewing Lockheed's foreign sales practices and that the Board would be kept advised. We were left with the impression that these payments represented isolated instances of bribes and that the amounts involved, while large, were not significant when viewed in comparison with those reported to have been made by other corporations. Lockheed also advised us that it had made political contributions of about $25,000 in one country, but that such contributions were legal under local law.

I should indicate that the Board was aware that Lockheed paid sales commissions to foreign consultants. This practise was not cause for alarm in that it is a usual way of doing business. Of course, the Board recognizes the difference between legitimate and appropriate finders' fees or commissions to sales consultants and bribes paid to governmental officials, either directly or indirectly, through commissioned agents.

The Board's staff met with Arthur Young and Lockheed on June 16 and 17, respectively, in California. We were advised of the procedures being followed in their review, which was anticipated to be completed with a report made to Lockheed's

Board of Directors on June 23. Following these meetings, the Board's staff became concerned that the amount of improper payments in issue was very large and that they constituted more than just isolated instances.

It was at its meeting on June 17, that the staff first became aware of a letter, dated April 29, 1975, to Lockheed from the Securities and Exchange Commission staff requesting certain general information regarding payments it may have made to foreign officials.

We were then kept advised by Lockheed of the status of the inquiries being made by the SEC and the Senate Subcommittee on Multinational Corporations. Lockheed also furnished the staff with a copy of its mid-July Submission to the SEC which describes a number of transactions known or suspected by the company to have involved payments to foreign officials and how these payments were effectuated. I might note that the transactions described in this Submission reflect the amount of payments Lockheed publicly disclosed as having been made to foreign officials and political organizations, although no identifying details are provided.

The Board's staff again visited Lockheed's corporate headquarters on July 21 and 22 to review the most current information about the bribery inquiries and to evaluate the

Company's operating progress. We reviewed Arthur Young's report to Lockheed's Board of Directors, which substantiated the information contained in the company's Submission to the SEC.

Additionally, we have become aware of certain of the identifying details behind the transactions described in the company's Submission to the SEC which have been publicly reported. We are also aware that several other U.S. agencies are closely examining Lockheed's foreign sales activities.

Board Action

I think it would be useful to divide the actions taken or to be taken by the Board into three groups:

1. Prohibit additional improper payments.
2. Determine whether the Guarantee Act or the Board's agreement with Lockheed has been violated.
3. Obtain full accounting of improper payments.

Prohibit Additional Improper Payments

Of primary importance to the Board is to assure that Lockheed makes no further improper payments, and that no monies borrowed under guarantee be used, even indirectly, to pay-off foreign officials.

On August 25, 1975, the Board held a meeting and was advised by Lockheed's Chairman that payments to all foreign marketing consultants had been suspended pending action by the company's Board of Directors on a new corporate policy relating to the selection and use of international consultants. The Guarantee Board unanimously decided that unless Congress otherwise directed, it would prohibit--as a condition of continuing the Government guarantee--any additional payments, directly or indirectly, to foreign government officials and political organizations, including those payments presently committed.

As the first step to eliminate these improper payments, the Guarantee Board sought to assure that Lockheed's Board of Directors would adopt a forceful policy to govern the company's selection and use of international marketing consultants. On September 8, Lockheed's Board of Directors formally adopted a new corporate policy prohibiting any payments which do not comply with applicable United States or foreign law and which do not meet the Internal Revenue Service's criteria as an ordinary and necessary business expense. I would like to submit a copy of this new policy to the

Committee for the record.

It is my opinion that this new policy is a very strong statement by the company which should go a long way in eliminating future improper payments by Lockheed. In order for this policy to be more than just a piece of paper, however, procedures will have to be adopted by Lockheed which will assure the policy is fully implemented. Lockheed has already begun to develop these procedures and the Guarantee Board will continue to work with the company in order to assure itself that the procedures are adequate to implement the policy.

It should be noted that the use of independent agents performing legitimate services is often a preferred and an appropriate method of doing business in certain parts of the world. Under these arrangements, Lockheed or for that matter any corporation, does not have total control over an agent's activities. This represents a hazard not only for Lockheed, but for the Board. The company's new policy attempts to address this problem, but the policy can not fully protect against dishonesty.

Finally, to further protect against future improper payments, the Board will seek to amend its agreement with Lockheed to provide the Board with contractual remedies should any improper payments be made in the future.

Assessment of Emergency Loan Guarantee Act and Agreement

The Board's staff, after becoming concerned in June that the payments to foreign officials by Lockheed were more than isolated cases, undertook a review of the Emergency Loan Guarantee Act (the "Act") and the Board's agreement with Lockheed to assess whether any violations or defaults have occurred by reason of Lockheed's foreign payments and if so, what legal courses of action might be available to the Board. As this review developed in late July and early August, it became apparent that additional information was needed in order to determine whether violations or defaults had occurred. Additional issues also had to be considered. These included the purpose underlying the Act, the Board's responsibilities under the Act, and general U.S. policy with regard to bribery of foreign officials by U.S. corporations.

The Board's agreement with Lockheed is extremely complex and although the Board's staff has identified certain provisions where a breach may have occurred, the ultimate outcome of other Governmental agencies' investigations could have a direct bearing on our assessment. We will continue to follow these proceedings closely.

Full Accounting of Improper Payments

It is the Board's opinion that a full accounting of the improper payments made by Lockheed is important for several reasons. First, for the Board to take all appropriate actions under the guarantee program, it should understand fully the payments in issue and second, as a guarantor for Lockheed's creditors, the Board must assess the potential risks to Lockheed's operations arising from these payments.

The Board has established a dialogue with the SEC, the GAO and the DOD for the purpose of working in cooperation with them, where appropriate, in order to assure itself, to the extent possible, that all improper payments have been accounted for. In addition, we will continue to work with Lockheed and others so that a full accounting will be made.

Concluding Remarks

From the information we have obtained from Lockheed, as well as from the company's public statements, it is clear that bribes had been paid by Lockheed prior to the guarantee program Whether laws of the United States have been violated is to be determined following the reviews underway by the various Congressional committees and the agencies investigating these questions.

The Guarantee Board has the responsibility of protecting the Government's interest as a guarantor for creditors of Lockheed. In so doing, it finds itself working with a company that alleged that foreign payments of this nature are a normal and necessary method of doing business abroad in the highly competitive aerospace market. Since the Board's responsibilities are limited, its actions can only be directed at borrowers under the Act, or at Lockheed. In this regard, the Board will take all appropriate actions necessary to assure itself that Lockheed does not make any further improper payments.

Congress, likewise, has a responsibility to determine what actions it should take with regard to bribes paid by United States corporations to foreign officials. The Board is encouraged that this Committee, as well as other Congressional committees, are considering this matter.

Mr. Chairman, we live in a time when the American public is cynical about government, about business and about our many other institutions. The knowledge of the practice of bribery exists, the Government knows and the American people know. We can not expect to rebuild the confidence necessary for our system of Government, if we do not speak out against these practices and take appropriate steps to end them.

I would be pleased to respond to any questions you might have at this time.

the Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE ON DELIVERY SEPTEMBER 30, 1975

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE
THE SUBCOMMITTEE ON TREASURY,
POSTAL SERVICE AND GENERAL GOVERNMENT
OF THE COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE
ON
THE PROTECTIVE MISSION OF THE
UNITED STATES SECRET SERVICE
SEPTEMBER 30, 1975
10:00 A.M.

Mr. Chairman and Members of the Subcommittee:

I am always pleased to appear before this Subcommittee which, under your leadership, Mr. Chairman, has provided both conscientious oversight and knowledgeable support to the Secret Service. While we all regret the circumstances which have precipitated this hearing, this Subcommittee presents a most appropriate forum for all who share our mutual concern that the protective mission of the Secret Service be executed as effectively as possible in our free society.

We should recognize at the outset that those who have been closely associated with the Secret Service, as I have, are almost invariably among its leading supporters. The agents of the Secret Service are highly competent, well-trained individuals and, as they have shown time and again, they

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are also wholly dedicated to their mission. The United States Secret Service is charged with one of the most difficult and delicate tasks within our government, and over the years its agents have performed in an extremely professional and exemplary manner.

At the same time, as those agents would be the first to agree, the protective work of the Secret Service must be subjected to continual scrutiny. We can never be totally satisfied with the quality of protection, but must always seek improvements. Since becoming Secretary of the Treasury, there have been a number of evaluations of the Secret Service undertaken and as a result of two recent alleged assassination attempts on the President, I have directed that an evaluation of the Secret Service protective function be intensified and reviewed directly by the Treasury Department. Members of the Treasury Department staff are currently engaged in this effort. It is our hope that these hearings, Mr. Chairman, will further contribute to the ongoing attempts to improve the quality of Secret Service protection.

I know that you recognize the vital considerations which compel us to refrain from public discussion regarding the details of the protective operations of the Secret Service and the pending criminal litigation evolving from the recent incidents in California. Because the public has, as expected, voiced such an interest in the subject of this hearing, it may be beneficial to both those who report it and those who read about it to know the reason that, in the face of strongly expressed concerns, the Secret Service must remain silent in public on matters relating to its protective procedures as well as matters relating to an on-going criminal investigation and pending litigation.

In the first place, Mr. Chairman, our policy has always been and shall continue to be one of maintaining the confidentiality of the particular protective practices of the Secret Service, because to expose these matters is to create a new danger to our protectees. That is particularly true when the hearings are held in public within full view of those who wish to watch these proceedings on television.

Moreover, although we will be happy to cooperate in answering questions relating to the functioning of the Secret Service or any other Treasury bureau, we think it undesirable to inquire extensively in this public session into the incidents involving Lynette Fromme and Sara Jane Moore. We ask this, Mr. Chairman, because one of the basic precepts in ensuring that the accused enjoys due process of law is the prohibition against, or judicial remedies for, prejudicial publicity. Such publicity is particularly of concern at the pre-trial stage.

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The Treasury Department, the Department of Justice and the Federal Government as a whole have an obligation to refrain from actions which might diminish the rights of a criminally accused individual. Concomitantly, we have an obligation to the American people and our system of justice to avoid any conduct which might prevent a criminal case from being adjudicated on the evidence and instead cause its dismissal on matters which do not go to the substance of guilt or innocence.

Therefore, Mr. Chairman, we are hopeful that this public hearing can accommodate these differing rights: the right of the Congress and the people to know how their government is operating; the right of officials protected by the Secret Service to enjoy the maximum security attainable in a free society; and the right of both the prosecution and the accused to a fair trial free of prejudicial publicity.

We are, of course, prepared to discuss with the Subcommitte the general development of the protective intelligence activities of the Secret Service and the continuing search, since the report of the Warren Commission, for a refined and accurate procedure for identifying those individuals who pose a real threat to any of our protectees. This is a task which is yet to be achieved and will never be totally achieved since we are dealing with an inexact science. To

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give some perspective on the magnitude of the task facing the Secret Service, it should be noted that in a single year the Secret Service screens 200,000 pieces of information regarding persons of possible protective interest; as a result of this information, it interviews 4,000 people a year in connection with its protective responsibilities; it arrests approximately 60 people a year as a result of distinct threats made against protected officials; and it identifies 275-300 people who merit special attention in connection with each trip of a protected official. We are also prepared to discuss the scope of review which we are conducting of the protective operations of the Secret Service. I sincerely hope that our discussions with you, Mr. Chairman, and the other distinguished Senators present today concerning the overall performance and adequacy of funding of the Secret Service can benefit the accomplishment of its protective mission.

As we have arranged, Mr. Chairman, I will have to leave in order to appear before another committee which was so gracious as to shift the time for my previously scheduled testimony in order that I could be here this morning. Assistant Secretary David R. Macdonald will carry on for me in responding to your questions, and he will be joined by Mr. Richard L. Thornburgh, Assistant Attorney General of the Criminal Division, Department of Justice. Thank you.

UNITED STATES SAVINGS BONDS ISSUED AND REDEEMED THROUGH

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(Dollar amounts in millions – rounded and will not necessarily add to totals)

DESCRIPTION	AMOUNT ISSUED 1/	AMOUNT REDEEMED 1/	AMOUNT OUTSTANDING 2/	% OUTSTAND OF AMOUNT IS
TURED				
Series A-1935 thru D-1941	5003	4999	4	.08
Series F and G-1941 thru 1952	29520	29502	19	.06
Series J and K-1952 thru 1957	3753	3749	5	.13
IMATURED				
Series E 3/:				
1941	1945	1770	175	9.00
1942	8588	7794	794	9.25
1943	13804	12550	1254	9.08
1944	16137	14588	1549	9.60
1945	12724	11364	1360	10.69
1946	5817	5054	763	13.12
1947	5559	4706	853	15.34
1948	5772	4812	960	16.63
1949	5737	4708	1029	17.94
1950	5043	4087	956	18.96
1951	4362	3534	827	18.96
1952	4578	3684	895	19.55
1953	5252	4154	1098	20.91
1954	5372	4190	1181	21.98
1955	5609	4330	1279	22.80
1956	5415	4157	1258	23.23
1957	5111	3884	1227	24.01
1958	5012	3723	1289	25.72
1959	4707	3465	1242	26.39
1960	4744	3407	1337	28.18
1961	4852	3376	1476	30.42
1962	4733	3220	1513	31.97
1963	5343	3464	1878	35.15
1964	5205	3394	1811	34.79
1965	5098	3303	1795	35.21
1966	5530	3464	2066	37.36
1967	5485	3403	2082	37.96
1968	5200	3164	2037	39.17
1969	4894	2880	2013	41.13
1970	5126	2812	2314	45.14
1971	5918	2881	3037	51.32
1972	6535	2820	3715	56.85
1973	6467	2586	3881	60.01
1974	6540	2043	4497	68.76
1975	3167	413	2754	86.96
Unclassified	833	764	69	08.28
Total Series E	212214	152948	58264	27.46
Series H (1952 thru May, 1959) 3/	5484	4212	1274	23.23
H (June, 1959 thru 1974) 5	10474	3831	6641	63.40
Total Series H	15958	8043	7915	49.60
Total Series E and H	228172	160991	66179	29.00
All Series — Total matured	38276	38250	28	.07
All Series — Total unmatured	228172	160991	66179	29.00
All Series — Grand Total	226448	199241	66207	24.85

ude accrued discount.

ent redemption value.

ption of owner bonds may be held and will earn interest for additional periods after original maturity dates.

Form PD 3812 (Rev. Nov. 1974) – Dept. of the Treasury – Bureau of the Public Debt

Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

For information on submitting tenders in the Washington, D. C. area: PHONE WO4-2604

FOR IMMEDIATE RELEASE October 1, 1975 661

TREASURY TO AUCTION $2.5 BILLION OF NOTES

On October 7 the Treasury will auction to the public under competitive and noncompetitive bidding $2.5 billion of 38-month notes. This is the amount that the Treasury projected early last month that it would raise through the issuance of an intermediate note. At that time the Treasury had also indicated that it expected to raise an additional $3.0 billion through the sale of a note to mature on October 31, 1977. Details of that offering will be announced later.

In addition to the $2.5 billion offered to the public, additional notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities. The coupon rate for the notes will be determined after tenders are allotted.

The notes now being offered will be Treasury Notes of Series H-1978 dated October 22, 1975, due December 31, 1978 (CUSIP No. 912827 EZ 1) with interest payable on a semiannual basis on June 30 and December 31, 1976, and thereafter on June 30 and December 31. They will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000, and they will be available for issue in book-entry form.

Payment for the notes must be made on October 22, 1975. Payment may not be made through tax and loan accounts. Notes in bearer form will be delivered on October 22, 1975.

Tenders will be received up to 1:30 p.m., Eastern Daylight Saving time, Tuesday, October 7, 1975, at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than Monday, October 6. Each tender must be in the amount of $5,000 or a multiple thereof, and all tenders must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES" should be printed at the bottom of envelopes in which tenders are submitted.

Competitive tenders must be expressed in terms of annual yield in two decimal places, e.g., 7.11, and not in terms of a price. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the amount offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined to the nearest 1/8 of 1 percent necessary to make the average accepted price 100.000 or less. That will be the rate of interest that will be paid on all of the notes. Based on such interest rate, the price on

(OVER)

each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield he bid. Price calculations will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final. Tenders at a yield that will produce a price less than 99.251 will not be accepted.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less will be accepted in full at the average price of accepted competitive tenders, which price will be 100.000 or less.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, may submit tenders for the account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of notes applied for. However, bidders who submit checks in payment on tenders submitted directly to a Federal Reserve Bank or the Treasury may find it necessary to submit full payment for the notes with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders must be completed on or before Wednesday, October 22, 1975, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, in other funds immediately available to the Treasury by October 22, or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such Bank or at the Treasury no later than: (1) Friday, October 17, 1975, if the check is drawn on a bank in the Federal Reserve District of the Bank to which the check is submitted, or the Fifth Federal Reserve District in the case of the Treasury, or (2) Wednesday, October 15, 1975, if the check is drawn on a bank in another district. Checks received after the dates set forth in the preceding sentence will not be accepted unless they are payable at a Federal Reserve Bank. Where full payment is not completed on time, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States.

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FOR IMMEDIATE RELEASE 663

Notes on Adequacy of Capital Investment
By
Edwin H. Yeo, III
at a Symposium of the
Washington Chapter
National Contract Management Association
Washington, D. C.
October 1, 1975

A significant debate is underway regarding capital formation -- the savings and investment process that has its ultimate manifestation in changes in the stock of real capital. In this sense, physical capital is literally the tools with which we work -- plant, equipment and the transportation facilities used in our distribution system.

There are three questions regarding capital: (1) Is the rate of capital formation adequate -- since we assume our economy is going to continue to grow, is the rate of capital formation consistent with this growth? (2) Is the system of allocating resources working at getting savings to the sectors in need of such funds? and (3) Is our stock of physical capital in this country being used efficiently -- in economic and technological terms?

While at times forgotten, the formula we learned some years ago is still with us: savings equal investment. This is a basic principle of accounting and economics. And when the Federal Government runs a deficit, negative savings result and there is less left over for capital investments by the private sector. Moreover, huge deficits place significant strains on the financial markets and impede their doing an effective job in allocating savings in our society to the most promising investment opportunities.

Another aspect of the problem deals with the plans of savers. Several generations of Americans have been raised on a set of principles which assume that savings on the part of individuals are a passive residual -- what's left over after people have met their basic consumption objectives. Savings can be either precautionary or goal oriented. In the first sense, the function of savings is to act as a cushion against the financial uncertainties of life. In the second sense, people save on a temporary basis to ultimately consume.

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In approximate terms, this is how we explained the savings process to millions of Americans during the fifties and sixties. This explanation was a creature of its times, a time of stable prices, a time of high corporate profitability, a time of low nominal interest rates.

This is an incomplete explanation. Individuals' savings are to some degree also a function of prospective rates of return. Many people save to realize a rate of return. This return may be in the form of actual interest expected to be received, or in terms of expected dividends plus appreciation.

In a period characterized by relatively stable prices and expectations of continued stability, the required return on the investment of savings is the rate of interest expected and/or the appreciation. In an economy characterized by significant price increases and inflationary expectations, the required rate of return is the above plus a calculation of prospective inflation rates -- an inflation premium if you will.

Savings of individuals tend to be responsive to rates of return on investment as well as to income.

The corporate sector saves through retained earnings plus depreciation. But in recent times depreciation has not been adequate in an economic sense. Because of inflation, true replacement costs exceed recorded depreciation charges. As taxes are based on the latter, there is a net cash drain to corporations.

What about the allocations of savings? Are they financing the real capital in the right areas, the areas where during periods of expansion, capacity shortages have developed and will likely at some point in the future reappear? The answer is no. Inflation is again the problem. First, because it prompts individuals and corporations to channel savings into projects that will "hold their value" as prices increase. Second, because it changes relative rates of return among parties, the process of inflation falls most heavily on capital intensive industry. It is in this area that under-depreciation, which results from rapidly rising replacement costs, is most severe. This depresses real rates of returns relative to less capital intensive industries. The result has been under-investment or, in the jargon of this note, a low rate of capital formation in capital intensive basic industries.

The dialogue on capital formation has been tardy. The factors resulting in a slower rate of capital formation have been at work for most of the last decade. An awareness of these factors developed only after the effects of this process surfaced, in some cases in a highly dramatic fashion. Looking back, the wonder is that individuals adhered to reasonably high savings patterns. Inertia, custom and habit were in part responsible, but these are undependable allies in looking to the future. The effects of under-depreciation became visible in the last expansion. Barring action to at least alleviate the impact, this will act as a depressant to the corporate sector and thus as a restraint on the rate of capital formation.

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REMARKS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
FLORIDA CHAMBER OF COMMERCE
PALM BEACH, FLORIDA, OCTOBER 2, 1975

IT IS A GREAT PERSONAL PLEASURE TO BE WITH YOU TODAY AND FOR THE SECOND TIME IN AS MANY WEEKS TO VISIT THIS WONDERFUL STATE.

THE OPPORTUNITY TO ENJOY THE SUNSHINE AND WARM HOSPITALITY OF FLORIDA IS ALWAYS WELCOME, ESPECIALLY WHEN IT ALSO OFFERS A CHANCE TO MEET WITH MANY OF THE LEADING CITIZENS OF THIS STATE. MOST OF YOU HAVE BEEN SO SUCCESSFUL IN RUNNING YOUR BUSINESSES AND BALANCING YOUR COMPANY'S BOOKS THAT I WISH YOU WOULD SPEND A LITTLE MORE TIME IN WASHINGTON. AS SOMEONE ONCE REMARKED, ONE OF THE THINGS WE NEED IN THIS COUNTRY IS TO HAVE "LESS GOVERNMENT IN BUSINESS AND MORE BUSINESS IN GOVERNMENT."

MY PLEASURE IN BEING HERE TODAY IS CERTAINLY ENHANCED BY THE HONOR OF SHARING THE PLATFORM WITH THE DEAN OF THE

THE FLORIDA CONGRESSIONAL DELEGATION AND A NOTABLE EXCEPTION TO THE BUDGET-BUSTING HABITS THAT WE SEE FROM TIME TO TIME IN WASHINGTON, CONGRESSMAN BOB SIKES. ONLY FOUR MEMBERS OF THE HOUSE HAVE SERVED AS LONG ON A CONSECUTIVE BASIS. BUT BOB SIKES IS MORE THAN AN INSTITUTION ON CAPITAL HILL: HE IS A DYNAMIC AND UNFLINCHING SPOKESMAN FOR MUCH OF WHAT IS RIGHT ABOUT AMERICA. I KNOW THAT YOU MUST BE JUST AS PROUD TO SAY THAT HE IS FROM FLORIDA AS I AM TO COUNT HIM AMONG MY FRIENDS.

I WAS ASKED IF I WOULD TALK HERE TODAY ABOUT THE ECONOMY -- SPECIFICALLY WHERE WE ARE AND WHERE I BELIEVE WE SHOULD BE HEADING. THE MOST IMPRESSIVE FEATURE OF OUR ECONOMIC LIFE TODAY IS THAT THE PROCESS OF RECOVERY IS

OFF TO A SOLID START. IN FACT, THE RECOVERY CAME EARLIER AND HAS BEEN STRONGER THAN COULD HAVE BEEN REASONABLY EXPECTED:

-- INDUSTRIAL PRODUCTION HAS NOW RISEN FOUR MONTHS IN A ROW, AND THE AUGUST INCREASE OF 1.3 PER CENT WAS THE BIGGEST SINGLE INCREASE IN THREE YEARS.

-- 1.5 MILLION JOBS HAVE BEEN ADDED TO THE WORK FORCE SINCE MARCH.

-- THE UNEMPLOYMENT RATE, WHILE STILL FAR TOO HIGH, HAS FALLEN FROM A PEAK OF 9.2 PER CENT IN MAY TO 8.4 PER CENT TODAY.

-- AND THE GROSS NATIONAL PRODUCT, AFTER SLIDING DOWNWARDS FOR 15 STRAIGHT MONTHS, ROSE BY 1.2 PER CENT IN THE SECOND QUARTER AND WILL MAKE SIGNIFICANT GAINS IN THE THIRD QUARTER AND IN QUARTERS BEYOND. INDEED, IF WE MANAGE THE RECOVERY

PROPERLY -- ACTING PRUDENTLY AND RESPONSIBLY -- THEN WE CAN ALSO MAKE THE RECOVERY DURABLE AND LASTING.

I EMPHASIZE THE NEED FOR PRUDENCE BECAUSE WE ARE NOW ENTERING ONE OF THE MOST DELICATE AND SENSITIVE PERIODS IN THE PROCESS OF RECOVERY. WHILE MOST OF THE ECONOMIC STATISTICS THAT WILL COME IN DURING THE NEXT FEW MONTHS WILL BE ENCOURAGING, A FEW WILL INEVITABLY POINT IN THE WRONG DIRECTION, CREATING A DEGREE OF ANXIETY ABOUT THE FUTURE. ESPECIALLY AS THE ELECTIONS APPROACH, THERE MAY BE GROWING PRESSURES TO INCREASE GOVERNMENTAL SPENDING, TO INCREASE MONETARY GROWTH, OR TO TAKE A NUMBER OF OTHER MEASURES THAT MIGHT SOMEHOW EASE OUR BURDENS AND ACCELERATE THE PROCESS OF RECOVERY.

YET I WOULD CAUTION THAT TWICE IN THE LAST DECADE WE HAVE ENGAGED IN THESE STOP-AND-START POLICIES, AND EACH TIME WE HAVE BEEN TAKEN FOR A RIDE THAT HAS LEFT US WORSE OFF

THAN BEFORE. ONE BUSINESS ECONOMIST COMPARED THE STOP-AND-GO POLICIES OF THE PAST TO THE ORDERS OF A FLUSTERED CAPTAIN ON A LISTING PASSENGER SHIP. FINDING ALL THE PASSENGERS ON THE PORT SIDE OF THE SHIP AND THE SHIP LISTING IN THAT DIRECTION, HE ORDERS THEM ALL TO RUN TO STARBOARD. THE SHIP KEELS OVER TO STARBOARD, AND HE ORDERS THEM ALL BACK TO TO THE PORT SIDE. THE MOMENTUM PICKS UP SPEED, AND THE SHIP THREATENS TO CAPSIZE.

THAT IS CERTAINLY NOT AN IDEAL WAY TO DIRECT THE AFFAIRS OF THE LARGEST AND MOST COMPLEX ECONOMY IN THE WORLD. THAT IS ALSO WHY PRESIDENT FORD HAS OPTED FOR STEADY-AS-YOU-GO POLICIES -- POLICIES THAT AVOID SHORT-TERM ADJUSTMENTS BASED ON LAST MONTH'S ECONOMIC REPORTS, POLICIES THAT FIGHT INFLATION AND UNEMPLOYMENT SIMULTANEOUSLY, AND POLICIES THAT RECOGNIZE A SUBTLE TRUTH: THAT A RESPONSIBLE GOVERNMENT NOT ONLY MUST DO WHAT IS RIGHT BUT MUST RESIST DOING WHAT IT KNOWS TO BE WRONG.

IN TRYING TO PURSUE BALANCED POLICIES, THIS ADMINISTRATION HAS CLEARLY NOT BEEN TRYING TO SIT TIGHT ON THE TREASURY STRONGBOX AND REFUSE TO ADD ANY STIMULATION WHEN THE ECONOMY HAS SAGGED. THE GOVERNMENT IS SUPPLYING A GREAT DEAL MORE STIMULUS TO THE ECONOMY THAN MOST PEOPLE REALIZE. FEDERAL OUTLAYS DURING THE FISCAL YEAR THAT ENDED THIS SUMMER WERE $56 BILLION HIGHER THAN THE YEAR BEFORE, A 21 PER CENT INCREASE. MONETARY POLICY ALSO HAS BEEN STIMULATIVE AS THE TOTAL OF CURRENCY AND BANK DEMAND DEPOSITS HAS INCREASED AT AN ANNUALIZED RATE OF 8.8 PER CENT OVER THE LAST SEVEN MONTHS. IN ADDITION, WE ARE KEEPING AN OPEN MIND ON WHETHER TO RECOMMEND AN EXTENSION OF THE TAX CUT. IN FACT, I AM RETURNING TO WASHINGTON THIS AFTERNOON TO CONTINUE DISCUSSIONS WITH THE PRESIDENT AND OTHERS ON THE EXTENSION; THE PRESIDENT EXPECTS TO REACH A DECISION OVER THE WEEKEND.

BUT LET ME BE CLEAR: EVEN IF THE PRESIDENT DECIDES TO ASK FOR AN EXTENSION OF THE TAX CUT, THAT SHOULD NOT

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BE INTERPRETED AS A SIGNAL THAT WE ARE ABANDONING OUR EFFORTS TO HOLD DOWN UNBRIDLED FEDERAL SPENDING OR EXCESSIVE FEDERAL DEFICITS. WE ARE CONVINCED THAT THE BURGEONING FEDERAL DEFICITS OF THE PAST BEAR A LARGE SHARE OF THE RESPONSIBILITY FOR THE INFLATION OF RECENT YEARS; TO INCREASE THE CURRENT DEFICIT FAR BEYOND $60 BILLION, AS THE CONGRESS THREATENS TO DO, COULD GENERATE A VICIOUS NEW CYCLE OF INFLATION THAT WOULD SURELY IMPERIL OUR HOPES FOR A DURABLE RECOVERY.

IT IS TIME FOR ALL OF US TO RECOGNIZE THAT THERE ARE NO INSTANT SOLUTIONS FOR OUR PROBLEMS. THESE PROBLEMS HAVE BEEN BUILDING UP OVER SEVERAL YEARS, AND THE SINS OF A, DECADE WILL NOT BE FORGIVEN BY A SINGLE YEAR OF PENANCE.

LET'S LOOK BACK FOR A FEW MOMENTS TO WHAT'S HAPPENED OVER THE PAST DECADE IN ORDER TO GAIN A CLEARER PERSPECTIVE ON WHAT NEEDS TO BE DONE IN THE FUTURE. IN THE EARLY PART

OF THE 1960S, INFLATION WAS CREEPING UPWARDS AT JUST OVER 1 PER CENT A YEAR. IN THE MID-SIXTIES, AS WE ACCELERATED OUR EFFORTS IN VIETNAM, LAUNCHED THE GREAT SOCIETY AND TRIED TO ABOLISH THE BUSINESS CYCLE, THE INFLATION RATE DOUBLED. IN THE LATE 1960S IT DOUBLED AGAIN. FOR A WHILE, WAGE AND PRICE CONTROLS SUPPRESSED INFLATION ARTIFICIALLY AND ONLY TEMPORARILY; AS HISTORY HAS SHOWN TIME AND AGAIN, CONTROLS NEVER END INFLATION, THEY ONLY POSTPONE IT WHILE PRESSURE BUILDS UNDER THE LID. IN 1973, PRICES SHOT UP OVER 6 PER CENT AND LAST YEAR THEY CLIMBED OVER 12 PER CENT -- THE STEEPEST INCREASE IN OUR PEACETIME HISTORY.

AS RISING PRICES FORCED UP INTEREST RATES IN 1973 AND 1974, THE HOUSING MARKET FELL APART. CONSUMERS, THEIR REAL INCOME ERODED AND THEIR CONFIDENCE DESTROYED BEGAN TO CUT DOWN ON THEIR BUYING AND WE EXPERIENCED THE BIGGEST DROP IN

RETAIL SALES SINCE WORLD WAR II. WITH TWO LEADING SECTORS DRAGGED DOWNWARD UNDER THE PRESSURE OF INFLATION, THE ECONOMY PLUNGED INTO RECESSION.

THUS IT WAS INFLATION THAT WAS AT THE ROOT OF THE RECESSION AND, IF WE WANT TO AVOID ANOTHER RECESSION, AND ITS COMPANION, HUMAN MISERY, IT IS INFLATION THAT WE MUST CURE. WE MUST DETERMINE WHAT FORCES LIE BEHIND THAT INFLATION AND THEN MAKE A DETERMINED EFFORT TO OVERCOME THEM. THERE HAVE BEEN, I WOULD SUGGEST, THREE IMPORTANT TRENDS OVER THE PAST DECADE WHICH BEAR MAJOR RESPONSIBILITY FOR OUR INFLATION:

FIRST, OF COURSE, HAS BEEN THE ENORMOUS GROWTH IN SPENDING AT ALL LEVELS OF GOVERNMENT. YOU HAVE NO DOUBT OBSERVED A SIGNIFICANT INCREASE IN STATE AND LOCAL GOVERNMENT SPENDING OVER THE YEARS IN YOUR OWN STATE OF FLORIDA. AT THE FEDERAL LEVEL, SPENDING HAS INCREASED BY 175 PER CENT

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OVER THE PAST DECADE WHILE THE ECONOMY HAS GROWN BY 120 PER CENT. THE RESULTING IMBALANCE HAS LED TO A SNOWBALLING OF FEDERAL DEFICITS WHICH HAVE IN TURN GENERATED MORE INFLATION AND HAVE CHANNELED FUNDS AWAY FROM PRIVATE INVESTMENT INTO GOVERNMENT SPENDING.

THE TRUTH IS THAT NEITHER MAN NOR GOVERNMENT CAN CONTINUE LIVING BEYOND THEIR MEANS INDEFINITELY. EVENTUALLY THE PRICE MUST BE PAID -- EITHER THROUGH HIGHER TAXES OR THROUGH THE CRUELEST AND MOST REGRESSIVE TAX OF ALL, INFLATION.

A SECOND AND RELATED TREND WHICH HAS HAD A DESTRUCTIVE IMPACT ON THE ECONOMY IN RECENT YEARS HAS BEEN THE PROLIFERATION OF FEDERAL REGULATIONS AND LAWS THAT HANDCUFF THE FORCES OF PRIVATE ENTERPRISE.

MANY OF YOU ARE PROBABLY FAMILIAR WITH SOME OF THE ABUSES SUCH AS REGULATIONS THAT REQUIRE TRUCKERS TO RETURN

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AFTER A HAUL WITH EMPTY VANS, OR FORCE UP AIR FARES ON PLANES THAT CROSS STATE LINES. THESE ABUSES ARE SPREAD ACROSS THE REGULATORY LANDSCAPE AND COST CONSUMERS UNTOLD BILLIONS OF DOLLARS.

IT IS PERHAPS IN THE ENERGY FIELD, HOWEVER, THAT GOVERNMENT REGULATION IS NOW CAUSING THE MOST SIGNIFICANT PROBLEMS. FOR MORE THAN 20 YEARS IT HAS BEEN APPARENT THAT THIS NATION AND ITS ENERGY POLICIES WERE ON A COLLISION COURSE. THE EXPERTS WARNED US AGAIN AND AGAIN THAT OUR DEMANDS WERE GROWING FASTER THAN OUR SUPPLIES. BUT RATHER THAN ALLOW THE PRIVATE ENTERPRISE SYSTEM TO RISE TO THIS CHALLENGE, AS IT CAN, WE HAVE LET THE GOVERNMENT ERECT ONE IMPEDIMENT AFTER ANOTHER TO DISCOURAGE GREATER PRODUCTION. IT CAN FAIRLY BE SAID THAT OUR ENERGY CRISIS, LIKE OUR INFLATION AND OUR RECESSION, SHOULD CARRY THE LABEL: "MADE IN WASHINGTON, D.C."

CONSIDER THE WAYS THAT ENERGY PRODUCERS ARE BEING SHACKLED BY THE GOVERNMENT IN JUST TWO VITAL AREAS: NATURAL GAS AND OIL.

-- FOR MORE THAN TWO DECADES, THE FEDERAL POWER COMMISSION HAS BEEN REQUIRED BY LAW TO KEEP THE WELLHEAD PRICE OF NATURAL GAS AT AN ABNORMALLY LOW LEVEL IN ORDER TO HOLD DOWN CONSUMER PRICES. BUT AS A RESULT, PRODUCERS HAVE NOT HAD AN ADEQUATE INCENTIVE TO DEVELOP NEW SUPPLIES AND THIS WINTER A DOZEN STATES IN THE EASTERN UNITED STATES COULD BE SEVERELY HIT BY NATURAL GAS SHORTAGES. WE ARE PUSHING EMERGENCY LEGISLATION TO HELP CUSHION THE IMPACT OF THESE POSSIBLE SHORTAGES, BUT THE ONLY REALISTIC LONG-RANGE SOLUTION IS TO DEREGULATE THE PRICE OF NATURAL GAS, REMOVING THE DISINCENTIVES.

-- INSTEAD OF LEARNING FROM THE NATURAL GAS EXPERIENCE, WE ARE REPEATING OUR MISTAKES IN THE CASE OF OIL, WHERE

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PRICE CONTROLS HAVE ALSO BEEN IMPOSED. AGAIN, THE RESULT IS PREDICTABLE: WE ARE LESSENING THE INCENTIVE FOR NEW PRODUCTION AND ARE THEREBY FORCING CONSUMERS TO BUY EXPENSIVE OIL PRODUCTS FROM FOREIGN SOURCES. THE PRICE INCREASES DECIDED UPON BY THE OPEC MINISTERS THIS PAST WEEKEND LEAVE NO DOUBT ABOUT OUR CONTINUED VULNERABILITY TO THEIR BLACKMAIL.

THE STORIES ARE EQUALLY SAD IN THE AREA OF NUCLEAR POWER, WHERE THE UNITED STATES -- ONCE THE PIONEER -- NOW TAKES MORE THAN TWICE AS LONG TO BUILD A NUCLEAR POWER PLANT AS SOME OTHER LEADING INDUSTRIALIZED NATIONS, AND IN THE AREA OF COAL, WHERE GOVERNMENT INTERVENTION HAS HELPED TO DISCOURAGE GROWTH SO THAT COAL PRODUCTION TODAY IS LOWER THAN IT WAS 30 YEARS AGO.

I DEEPLY BELIEVE THAT CONGRESS MUST END ITS UNCEASING DEBATES AND WORK WITH THE PRESIDENT IN ADOPTING A NATIONAL

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ENERGY POLICY THAT ENCOURAGES BOTH CONSERVATION AND GREATER PRODUCTION. THE SPIRIT OF ACCOMMODATION THAT WAS INDICATED BY THE RECENT AGREEMENT BETWEEN THE PRESIDENT AND CONGRESS ON STOP-GAP OIL LEGISLATION WAS ENCOURAGING, BUT LONG-TERM SOLUTIONS ARE STILL LACKING. AND WE HAVE ONLY OURSELVES TO BLAME.

LET ME TURN NOW TO A THIRD TREND THAT HAS CONTRIBUTED TO INFLATION. AS THE FORCES OF BIG GOVERNMENT HAVE BEEN OVERFED AND OVERNOURISHED, THE PRIVATE ENTERPRISE SYSTEM

HAS GRADUALLY BEEN WEAKENED.

WE HAVE DIVERTED BILLIONS OF DOLLARS AWAY FROM THE MOST PRODUCTIVE PART OF OUR ECONOMY, THE PRIVATE SECTOR, AND DIRECTED IT TO THE LEAST PRODUCTIVE PART, THE GOVERNMENT. PRIVATE INDUSTRY ITSELF HAS SUFFERED FROM A LACK OF SUFFICIENT PROFITS AND INCENTIVES FOR GROWTH. AND AS A RESULT, WE

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HAVE SIMPLY FAILED TO GENERATE VITALLY NEEDED SAVINGS AND INVESTMENT THAT TRANSLATE INTO FUTURE JOBS, HIGHER REAL EARNINGS, REDUCED INFLATIONARY PRESSURES, MORE OUTPUT PER WORKER AND RISING LIVING STANDARDS.

THE FACT IS THAT THE RECORD OF CAPITAL INVESTMENT IN THE UNITED STATES IN RECENT YEARS HAS BEEN THE LOWEST OF ANY MAJOR INDUSTRIALIZED NATION IN THE FREE WORLD. NOT SURPRISINGLY, OUR RECORD OF PRODUCTIVITY GROWTH IN THE SAME PERIOD WAS ALSO AMONG THE LOWEST.

IN THE COMING DECADE, OUR BEST ESTIMATE IS THAT THE LEVEL OF CAPITAL INVESTMENTS MUST BE APPROXIMATELY TRIPLE THOSE OF THE PAST DECADE AND THAT THE ECONOMY WILL HAVE TO GENERATE 18-19 MILLION NEW JOBS BY 1985, COMPARED TO THE 13 MILLION NEW JOBS CREATED OVER THE PAST DECADE. THUS, THE NEED FOR GREATER CAPITAL FORMATION AND JOB FORMATION IS CLEAR.

Toward these ends, the Administration in late July proposed to the Congress a "Tax Program for Increased National Saving". This proposal would eliminate the inequity and inefficiency which arises from first taxing corporate incomes and then taxing individuals who receive corporate dividends; our proposal would end this double taxation. I strongly believe that this proposal -- which has already been adopted in most of the other major industrialized countries -- would make a significant contribution toward meeting our capital and job needs of the future. Moreover, it is the only major tax proposal of which I am aware that comes to grips with the growing imbalance between corporate debt and equity. In short, I think this represents a sound, responsible approach, and I hope that it will merit your support.

Ladies and gentlemen: what all this boils down to is a fundamental choice about the future of our great Republic. I

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SINCERELY BELIEVE THAT WE HAVE REACHED A CROSSROADS IN OUR NATION'S HISTORY. FOR MORE THAN 40 YEARS WE HAVE BEEN GRADUALLY INCREASING THE POWER OF THE CENTRAL GOVERNMENT OVER OUR DAILY LIVES. AS OUR FREEDOMS HAVE BEEN CHIPPED AWAY, YEAR IN AND YEAR OUT, WE HAVE ALSO LOST SOME OF THAT GLOW THAT WAS PARTICULARLY DISTINCTIVE ABOUT THE AMERICAN EXPERIENCE - OUR BOLDNESS AND VITALITY HAVE BEEN DRAINED A BIT; OUR INGENUITY HAS BEEN CHALLENGED BY NATIONS AROUND THE WORLD; WHY, SOME NATIONS HAVE EVEN COME TO BELIEVE THEY CAN PLAY US FOR PATSIES, AND ALAS, OUR FREE ENTERPRISE SYSTEM -- THE GREATEST ENGINE FOR SOCIAL PROGRESS THAT THE WORLD HAS EVER KNOWN -- HAS SLOWED DOWN PERCEPTIBLY SO THAT NOW IT IS CHUGGING ALONG IN SECOND GEAR, FAR BELOW ITS POTENTIAL.

I BELIEVE THAT THE TIME HAS NOW COME TO CHOOSE -- TO CHOOSE BETWEEN A CONTINUATION OF THE LAST 40 YEARS, A TREND THAT WILL EVENTUALLY MEAN THAT OUR ECONOMIC AND POLITICAL

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FREEDOMS WILL BE SACRIFICED AND THAT OUR SOCIETY WILL BE RUN BY THE SAME FREE SPENDERS WHO HAVE GIVEN US THE WORST INFLATION IN OUR PEACETIME HISTORY AND THE WORST RECESSION IN MORE THAN A GENERATION, OR AS AN ALTERNATIVE, THAT WE RESTORE OUR BASIC FREEDOMS AS AMERICANS, REVIVE OUR PRIVATE ENTERPRISE SYSTEM, AND REASSERT AMERICA'S SENSE OF DESTINY IN THE WORLD.

I BELIEVE THAT WE MUST CHOOSE BALANCED, STABLE GROWTH FOR OUR ECONOMY -- GROWTH THAT IS NOT IMPERILED BY NEW INFLATION.

WE MUST CHOOSE AN END TO RUNAWAY FEDERAL SPENDING AND MONSTROUS FEDERAL DEFICITS.

WE MUST LIFT THE DEAD HAND OF GOVERNMENTAL REGULATION THAT IS IN THE PROCESS OF STRANGLING OUR PRIVATE ENTERPRISE SYSTEM.

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AND WE MUST CREATE A MORE FAVORABLE ENVIRONMENT FOR THE GROWTH OF CAPITAL INVESTMENT SO THAT WE CAN CREATE MORE JOBS FOR AN EXPANDING LABOR FORCE AND CONTINUE TO RAISE THE STANDARD OF LIVING FOR ALL AMERICANS. LET US RECOGNIZE THAT CAPITAL CREATION IS REALLY JOB CREATION, AND THAT JOB CREATION MEANS AN EXPANDED WORK FORCE, HIGHER REAL EARNINGS AND LOWER PRICES FOR CONSUMERS.

THESE ARE THE CHOICES THAT WE MUST MAKE AS A NATION IN THE COMING YEARS. THESE ARE THE CLASSIC CHOICES BETWEEN FREEDOM AND SOCIALISM. THESE ARE THE CHOICES THAT WILL SHAPE THE LIVES OF OUR CHILDREN AND OUR CHILDREN'S CHILDREN.

I HAVE ALWAYS BELIEVED THAT EVERY PUBLIC OFFICIAL MUST TAKE THIS AS HIS HIGHEST GOAL: TO TURN OVER TO OUR CHILDREN A NATION THAT IS STRONGER AND BETTER -- THAT OFFERS GREATER OPPORTUNITIES FOR PERSONAL AND SPIRITUAL FULFILLMENT -- THAN

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THE NATION WE HAVE INHERITED. I FIRST CAME TO WASHINGTON BECAUSE -- AS CORNY AS IT MAY SEEM -- I WANTED TO REPAY A SMALL AMOUNT OF WHAT THIS COUNTRY HAS GIVEN ME. AND I AM PROUD TO BE THERE. BUT WHEN I SEE THE ABUSES THAT WASHINGTON HAS INFLICTED AND IS CONTINUING TO INFLICT UPON PRIVATE ENTERPRISE AND UPON OUR FREEDOMS, I CAN ONLY SHUDDER ABOUT THE WORLD THAT WE ARE BUILDING FOR OUR CHILDREN. I BELIEVE THAT THE TIME HAS COME FOR NEW DIRECTIONS IN THIS COUNTRY -- TO SET THE SHIP OF STATE ON A NEW COURSE. AND I BELIEVE THE AMERICAN PEOPLE KNOW THIS. THERE IS NO QUESTION IN MY MIND THAT THE PEOPLE OF THIS COUNTRY WANT A FRESH START, AS THE PRESIDENT HAS SAID. BUT I ALSO BELIEVE THAT WE WILL MAKE THE RIGHT CHOICES ABOUT THE FUTURE ONLY IF MORE OF OUR CITIZENS -- AMERICANS OF STRENGTH AND CHARACTER LIKE THOSE OF YOU HERE TODAY -- STAND UP AND BE COUNTED. I URGE YOU TO JOIN IN THAT EFFORT.

THANK YOU.

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Remarks by Edwin H. Yeo, III
Under Secretary for Monetary Affairs
before the
Washington Export Council
at the
International Club
October 2, 1975

Corporate Capital Expansion

Good afternoon ladies and gentlemen. I want to thank you for the chance to speak to you this afternoon on the topic of corporate capital. This is a subject which is of great personal interest to me and a subject that deserves a great deal more attention in my judgment.

We have seen major shifts in the composition of corporate balance sheets over the past decade. This has had a major impact on the way our economy performs, its behavior during recession and recovery. New policy implications of this development are just now beginning to be explored.

What I would like to do this afternoon is to review how this situation has developed and particularly to examine some of the implications of this development -- not just this month or next but over many years ahead. In the end, I want to close on a positive note as to what can be done to remedy the situation.

I. The Dimensions and Origin of the Problem

The rapid rise in corporate debt relative to equity is a phenomenon which resulted from a series of economic and financial events:

To begin with, the high inflation and the needs of a rapidly growing labor force brought about a dramatic rise in the amount of dollar investment of business in new plant, equipment and inventories. Many companies, however, have lacked sufficient internal funds to meet all of these needs. As a result, they have been compelled to look to outside sources for expansion.

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Moreover, during the fifties and throughout most of the sixties, the cost of debt was low relative to the cost of equity financing. American business as a whole had a relatively low ratio of debt-to-equity on which to build. Further, these corporations faced a systematic tax bias favoring debt financing. As we know, interest on debt is deductible by the corporation for tax purposes whereas common stock dividends are not. This tax difference has created a powerful incentive in favor of debt financing.

In addition, flotation costs are less for debt financing than they are for equity financing and there are fewer delays and less uncertainty in the placement of debt. Finally, the banking system in the fifties and earlier sixties had ample ability to make loans. With the emphasis on profitability, many banks turned to higher loan-to-deposit ratios so that companies of at least moderate success had little difficulty in borrowing.

With all of these factors converging, there has been a significant "gearing up" or leveraging process going on which has materially raised break-even points with respect to profits and made some parts of U.S. business more vulnerable in the future economic slowdowns. This is the situation we face today.

It is important to recognize the impact that inflation has had upon the corporate financial situation. In current dollars, for instance, corporate capital outlays for plant, equipment and inventories rose from $52 billion in 1964 to approximately $125 billion in 1974 -- a two and one-half fold rise in just 10 years. Discounting for inflation, however, outlays in constant dollars rose only 51 percent.

Indeed, inflation has taken a heavy toll, not only on business capital needs but on the entire economic system, especially in terms of interest rates.

From 1955 to 1964 consumer prices rose by 1.4% per year. From 1965 to 1974 they rose by 4.7% per year. And over the past five years they rose by 6.1% per year, culminating in the infamous double-digit pace of 1974. This time span included periods of boom, recession, even war. Yet the worst span of inflation was the recent 5 year period, and this span has witnessed a sharp erosion of corporate profitability and a huge rise in corporate debt.

Corporate profits in recent years have been greatly over-stated because of the distorting effects of inventory valuation gains and the inadequate level of depreciation based on historic rather than replacement cost. In 1974, reported earnings for nonfinancial corporations were $65.5 billion compared to $38.2 billion in 1965 -- an apparent increase of over 70%. Yet when inventory gains and depreciation costs are recast to take account of the inflation, profits in 1965 were $37.0 billion and only $20.6 billion in 1974 -- a decline of over 40%.

One of the results of the profit squeeze and more rapid inflation has been to force American business more and more to external funds for expansion. In the 1950's and early 1960's roughly 30% of capital spending was raised externally. By 1974 the figure was approximately 60% -- a virtual doubling. Furthermore, the bulk of these funds was of a fixed income variety -- debt as opposed to equity. From 1965 to 1974 debt of nonfinancial corporations rose from $201.3 billion to $585.4 billion -- almost a tripling.

The net results of these developments are: reduced liquidity and increased leveraging of corporate balance effects.

Debt has increased to the point where it is causing top-heavy balance sheets for many companies. The debt-equity ratio has about doubled in the past decade. Together with the higher interest rates, this has sharply eroded coverage ratios. By way of definition, a coverage ratio is simply the annual cash flow of a company divided by the annual interest and principal payments needed to service the debt. With increased financial charges to be met, the variability of earnings available to common stockholders as well as the probability of insolvency increase.

II. Implications of the Greater Leverage

The combination of increasing debt-to-equity ratios, rising interest rates, lower corporate profitability, and a serious recession has caused suppliers of capital to be increasingly concerned with safety. The "flight to quality" is a very real thing in financial markets today. As we know, many companies are foreclosed from the capital markets.

Customarily, while we would believe that there is a stable tradeoff between risk and required return such that the more risky the borrower the higher the rate he has to pay, this no longer seems to be the case. In my judgment, a discontinuity has developed where, after a point of risk, corporations and other borrowers no longer are able to attract financing even though they may be willing to pay the higher rate. The credit spigot is slowly being turned off for all but the most successful of borrowers. Even these borrowers are having to pay historically high interest rates.

Also disturbing is the fact that new enterprises and newer established companies are experiencing great difficulty in attracting venture capital. If we are to have our competitive system work at its very best and if we are to provide the nutrients for innovations and technological breakthroughs, we must allow new enterprises to form and new ideas to flourish.

In addition to these repercussions, there are a number of others. With the increased leverage which has occurred, more and more companies are exposed during recessions to large losses.

III. Effect on Financial Markets

In some measure, the high levels of leverage employed by American business have resulted in intermittent distortions to our financial markets. Our American economy is dependent on efficient financial markets. These markets have traditionally channeled savings in our society to the most productive investment opportunities, with a resulting gain in return as well as lessening of inconvenience to the saver. A whole host of financial intermediaries has developed whose sole reason in being is to make the allocation of savings in society more efficient. By any standard, American financial markets are the wonder of the world and a bedrock of our economic system. This wonder is now losing some of its luster, as the above facts attest. Again, one of the underlying causes is the increase in leverage.

Why are we concerned? Why should you be concerned? If our financial markets become less efficient, as now appears to be the case, this has a detrimental effect on capital formation by American business. Without adequate capital formation productivity will slip, capacity constraints will be reached sooner, and bottlenecks will develop in specific industries which in turn will send inflationary tremors throughout the system. In short, productivity gains will be less than would otherwise be the case, and unemployment will be higher than need be.

If there is to be real growth in the economy, we must have adequate capital formation. This is what helps increase productivity and the real standards of living enjoyed by Americans. In turn, capital formation depends in no small way upon the efficient functioning of our financial markets. To the extent that excessive leverage has hampered this efficient functioning, we all suffer.

IV. Prospects

As the economy continues to recover, many corporations will have the opportunity to repair their leverage positions. While a sustained recovery will certainly increase the need for capital formation, and indeed that is our desire, corporations will be able to demonstrate the profit potential which is so fundamental to successful equity financing.

If the Treasury proposals with respect to capital formation are adopted, this will help the situation as well. One of these proposals calls for the integration of personal and corporate taxes so as to make more equal the treatment of debt and equity financing. This will enhance equity financing by American business and bring about a concurrent reduction in the tax bias favoring debt financing.

With sustained economic recovery, the federal deficit should be steadily reduced, and eventually a surplus will be shown when the economy reaches full employment. Such an occurrence would reduce the unprecedented Treasury borrowing requirements which have occurred throughout this year and will occur for some time to come. Without the huge avalanche of Treasury securities coming to market, other borrowers -- corporations, individuals, and municipalities -- will have access to the financial markets on a basis considerably more favorable than today.

In summary, while the significant increase in leverage by American business is one reason for the problems we currently face, this is not the only cause.

Nonetheless, it is a significant problem, and one which we would hope will be redressed. I have outlined steps necessary for this to occur. With corrective actions, the financial markets of the country can be restored to their full capability. The result will be that capital formation will be enhanced, productivity improved, inflation lessened, and unemployment reduced. To these goals we all aspire.

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FOR IMMEDIATE RELEASE October 3, 1975

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964-2575

JOINT TREASURY DEPARTMENT-SOCIAL SECURITY ADMINISTRATION STATEMENT ON NATIONWIDE IMPLEMENTATION OF DIRECT DEPOSIT

As of October, people across the United States can choose to have their monthly social security check mailed directly to a bank or thrift institution of their choice for credit to their account instead of to their home address.

Nationwide implementation of direct deposit, as the new procedure is called, was announced jointly by David Mosso, Fiscal Assistant Secretary, Treasury Department, and James B. Cardwell, Commissioner of Social Security. The procedure is available on a voluntary basis to the 32 million persons who get social security checks and 4.2 million who get supplemental security income for the aged, blind, and disabled.

Direct deposit has several advantages to the beneficiary. The possibility of loss of his check is greatly reduced, and the possibility of theft and forgery is virtually eliminated. Also, direct deposit assures uninterrupted deposits while he moves from one home to another or is away from home.

Direct deposit has been gradually phased in around the Nation, beginning with a pilot project in Georgia in November 1974. Informational notices about the program were included with checks mailed in August to social security recipients who live west of the Mississippi; in September to those east

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(over)

of the Mississippi; and in October to residents of the east coast. So far, about 1.5 million people have elected direct deposit.

The Social Security Administration, an HEW agency, certifies payments to the Treasury Department, and Treasury prepares and mails the checks for delivery in the first week of each month.

Beneficiaries who want direct deposit of their checks fill out an authorization form--SF 1199--which they can get at any bank or thrift institution. The form authorizes the Government to deposit social security payments to the beneficiary's account.

The Social Security Administration will continue to mail official notices to beneficiaries at their home even if they elect direct deposit of their checks. People who prefer not to have direct deposit don't need to do anything. Their checks will continue to come to their home address.

The new procedure is an early phase of a long range plan to convert Government payments, beginning with social security benefits, to an electronic funds tranfer system. Under this procedure, the Treasury Department will provide payment information in the form of magnetic tape to the Federal Reserve System, which in turn will transmit it by electronic or paper media to individal banks and thrift institutions.

Pilot projects in electronic funds transfer are planned for early 1976. Under present plans, the system will begin in Georgia in February and in Florida in April for social security beneficiaries who elect direct deposit. Present plans call for nationwide distribution of these social security payments by electronic funds transfer by the end of 1976 for beneficiaries who elect direct deposit.

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FOR RELEASE ON DELIVERY
6:30 P.M., October 3, 1975

ADDRESS OF EDWIN H. YEO, III
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
BEFORE THE
FOREX ASSOCIATION OF NORTH AMERICA
AT THE NEW YORK PLAZA CLUB
OCTOBER 3, 1975

When Gerald Kramer invited me to talk to you this evening, he suggested that I might discuss the international monetary environment. I found his choice excellent, and it is a particular pleasure to be with you to speak to a subject of great importance to all of us.

The environment in which international monetary affairs are conducted today seems to me dominated by three features. First are the very marked changes in the underlying real economic and financial situation we have experienced. Second, and partly a consequence of the first, there is more uncertainty concerning our collective economic future than in many years. Finally, the environment for our monetary relations is characterized by a high degree of international cooperation, as it must be if we are to deal successfully with the problems we face. Let me now try to convert these generalities into more meaningful specifics.

The Real Economic and Financial Environment

The past decade has seen several marked changes in the world economic and financial situation. One of these, the greatly expanded potential for internationally mobile capital flows, must be considered as enduring. Two others, the difficulties of the industrial countries in containing inflation, and the balance-of-payments problems posed by the oil price increases, will hopefully prove to be temporary.

The potential for international capital flows makes the world of the 1970's and 1980's a very different one from the world of the 1940's and 1950's. There is today, and there is no reason to believe there will not be for the foreseeable future, a very large volume of financial resources which is prepared to move internationally in response to various incentives and disincentives. This mobility was enhanced by the progressive liberalization of restrictions on capital movements, notably reflected in

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the return to external convertibility by a number of European countries near the end of the 1950's. The Eurocurrency market added an important new dimension to the potential for mobility. Equally basic, the perspectives of the financier have broadened as the world has become more interdependent. You all know this as well as I.

Tenacious and rapid inflation is the second marked change we have seen. The industrial world has been deeply scarred by the inflation of the past two years. For too long before that, the general view seemed to be that less inflation meant less prosperity -- that there was a two-dimensional trade-off between them. Most people presented with this seemingly clear choice understandably chose prosperity, and the more imaginative embellished their choice with the notion that "a little inflation is a good thing." Today, the morning after the worst recession in the post World War II period, most people have a more realistic perception of what inflation means. They know now that it was inflation which sowed the seeds of the downturn from which we are only now emerging.

But this new perception was too slow in coming, and for two years the industrial world has suffered from a truly virulent case of inflation. Not all countries were equally afflicted, although none escaped completely, and the result was that a number of international competitive relationships changed sharply. In addition, rapid inflation required strong policy responses, which were bound to be unsettling. To the degree policy stances differed in various countries, large capital movements could be triggered.

The oil price increases beginning in the fall of 1973 injected a third major change into our economic and financial environment. Industrial countries long accustomed to running current account surpluses were abruptly faced with the prospect of running the large deficits which had to be the counterpart of the OPEC surpluses.

Now, in fact, many industrial countries have made rapid progress in resolving the balance-of-payments problems facing them as a result of the oil price increases. From a combined current account deficit of $35 billion last year, the developed countries of the Organization for Economic Cooperation and Development as a group are estimated to move into a small current account surplus in the first half of this year. I should note that this change is only partly reflected in lower OPEC surpluses, for the already critical position of the non-oil developing countries has deteriorated further. Too, we must expect that the current account position of the industrial countries will deteriorate again as recovery takes hold. And I am by no means suggesting that, because the industrial countries are handling their balance-of-payments problems reasonably well, they have been relieved of the real costs of high oil prices.

The recently announced oil price increases constitute another setback. They also testify to the inadequacy of our efforts to respond to the energy problem. But, while the record of the past two years does not provide much evidence to support me, I remain firmly convinced that there will be an effective response to the OPEC cartel. The energy problem is simply too important not to be addressed squarely, later and more painfully if not sooner.

The changes I have cited -- the potential for large international capital flows, rampant inflation at differential rates, the balance-of-payments strains arising from the oil price increases -- have dictated the shape of our current international monetary arrangements. Specifically, these changes have made more flexible exchange rate practices imperative.

It is useful to keep in mind that the agreement of the major industrial countries to move to generalized floating was reached in March 1973. In other words, that agreement pre-dated both the oil crisis and the worst of our inflationary experience -- though the beginnings of rampant inflation were certainly a factor in the decision. It reflected recognition that fixed rates could not generally be maintained in the face of the vast sums of mobile capital flows, at least in the absence of an adjustment process greatly more effective and smooth than has ever been achieved. Too much scope existed for capital to flow if the market believed that there was even a small disequilibrium in a country's external accounts -- however the market might define that term.

In effect, the balance of power to determine exchange rates had shifted from central banks to the economic and financial forces that caused capital to move across the exchange markets in massive amounts to gain profit or avoid loss. Monetary authorities and governments were no longer willing to accumulate the foreign debts or build up the massive reserves needed to overcome these forces. Since March 1973, that balance of power has shifted even further.

Mobile capital flows and high inflation rates were thus instrumental in leading countries to move toward markedly more flexible exchange rate arrangements. Continued inflation at greatly diverse rates and the oil price rises increased the number of advocates of such arrangements. Yet it is clear that if inflation is again brought under control, and the challenge of monopolistic oil pricing is effectively met, there will be renewed efforts to extend more rigid exchange rate practices throughout the monetary system.

Those who advocate such attempts must recognize that they probably imply sweeping restriction of capital movements, as well as large reserve fluctuations. The architects of Bretton Woods who designed their system to achieve stability in the exchange markets through a par value system did not seek to promote freedom of capital movements in the same breath. Given the great mobility of capital among industrial countries today, it is difficult indeed to believe that tighter restrictions on capital movements would not inevitably follow from an effort to return to fixed rates. It is well known that the United States is not philosophically prepared to follow that course; but I wonder myself whether, after the ineffectiveness of efforts to control capital movements in the last half of the 1960's, other countries really wish to repeat that futile experience.

Broadly speaking, countries have but three courses to follow in dealing with mobile capital flows. Theoretically, they could follow monetary policies that would seek to inhibit those flows. Or they could impose intensive and extensive exchange controls. Or they can allow the exchange rate to move to absorb the pressures. Only the last course seems both feasible and consistent with world economic progress.

Living with Uncertainty

We are in a truly critical period, in that we are faced with decisions that have major implications for the shape and future of the world economy. I believe it important to understand that our plans and policies must be formulated in an environment which is more than usually uncertain.

The principal uncertainties I see will not be strangers to you. I don't think we will, but we could set off a new surge of inflation should politics over-ride economics in the current conjuncture. I can't believe we will continue to vacillate over an energy policy, but my belief is based on faith rather than the track record. I don't believe that we will create such heavy dependence on the role of governments in our economies that the capacity of governments to respond will be over-taxed, but the trend in the Twentieth Century poses issues that must be faced.

In the international monetary arena, these uncertainties, on top of the changes in the economic and financial situation I have already traced, mean that exchange rates will probably move more than they would have otherwise, no matter what the exchange rate regime. There will be a certain tendency to grasp at straws, to greet euphorically each bit of good news, to agonize over each setback, no matter how minor.

These uncertainties will also make it more difficult than ever to divine what exchange rate is "right." And I think this statement holds whether one is thinking about going back to narrow or wide exchange rate bands. Obviously, of course, if the band were extremely wide, vague and elastic as some have proposed, it would impose no constraint -- and would serve no purpose in the eyes of anyone. However, any band narrow enough to be meaningful would also suppose an unrealistic ability to tell where the center of the band should be -- and would pose the same old problems as the margin was approached, which is where the pressure comes.

Uncertainty also means that we would be ill-advised to try to draw today a detailed blueprint for future international monetary arrangements. To do so would be to build castles on a foundation of shifting sand. We have more important things to do.

In saying what I have, I do not mean to imply that the world should cease its search for stability. Stability is a legitimate and central objective of our international monetary arrangements. But stability is not a unique virtue of a par value system -- nor indeed do I believe it is a characteristic of a par value system. Greater instability than we have today would almost certainly result from unrealistic attempts to impose such a system. Trying to bring stability to the world economy by an obligation to par values is like trying to heat a room by blowing on the thermometer. We must concern ourselves with the causes of instability in the world economy, not seek to impose stability in ways which leave the causes untouched.

International Cooperation

Neither the strains arising from the marked changes in our economic environment nor the uncertainties about the future have led nations to abandon the practices and institutions of international cooperation which have served us all so well in the past World War II period. To the contrary, cooperative efforts have been intensified, and have assisted us greatly in responding to the challenges of the present. The lessons of the interwar period, when nations too often acted at cross purposes, appear still to be well-remembered.

The process of international cooperation is both evolutionary and unending. The accomplishments of yesterday could be nullified tomorrow should we not continue to bend our efforts to maintaining and expanding our channels of communications.

I personally attach great importance to improving further our international consultations on real economic and financial issues. The prosperity of all our nations is linked more closely today than ever before, and it is consequently just that much more important that we learn what we can from the experience of others, and that we approach our own policy decisions with maximum awareness of the impact on others. In my view this is the most promising path to world economic and financial stability. In the months ahead, I hope to participate actively in reinforcing this consultative process.

About a month ago, during the Annual Meetings of the World Bank and the International Monetary Fund, substantial progress was made toward strengthening international cooperation in the monetary area. At that time, an agreement was reached which represented a major breakthrough toward comprehensive settlement of a three part package, on gold, on an increase in IMF quotas, and on exchange rates. That agreement constituted evidence of progress, and provided momentum toward a full agreement that is desirable in terms of promoting the confidence needed for world wide economic recovery.

Some have interpreted the agreement on gold as representing an abandonment of our principles, and as potentially placing gold back in the center of the monetary system. I strongly disagree with such interpretations. I believe the agreement on gold is in fact a major step toward carrying out the agreed objective of phasing gold out of the system -- and I think it noteworthy that the markets placed that interpretation on the agreement.

U.S. agreement to reduce its voting share in the IMF to 20% helped facilitate resolution of the always difficult issue of allocation of quota increases. Such reductions were needed in order to facilitate a major increase in the shares of the oil exporting nations. Our concession was made in the context of an amendment of the voting provisions of the IMF which raises the required vote from 80% to 85% on key issues, and in the context of a highly desirable agreement to increase the usability of IMF holdings of currencies.

The agreements reached at the Bank/Fund meetings will not be implemented until agreement is reached on the remaining crucial issue of amendment on the exchange rate regime. To reach agreement on exchange rates will be one of my main preoccupations in the months immediately ahead. I plan to leave this coming week for preliminary discussions with my counterparts in a number of European countries which will allow me not only to get to know them better but to discuss how progress toward an exchange rate agreement can best be achieved.

I am confident that a satisfactory consensus can be reached in the months ahead. We have set as our objective agreement by the time of the next meeting, in January, of the IMF's Interim Committee -- the ministerial level body established last year to oversee the evolution and operation of the international monetary system. The spirit of compromise evident at the Bank/Fund meetings augurs well for meeting this target.

Conclusion

Ladies and gentlemen, our fundamental task is to improve the environment for our international monetary affairs. If we are to have the stability in our international monetary arrangements that we all seek, we must first have stability in the underlying economic environment. That in turn requires an extended period of sound domestic policies, effective efforts to respond to the oil crisis, and reinforced international cooperation. I can assure you that this Administration is fully committed to that course.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 4:00 P.M.

ADDRESS OF THE HONORABLE RICHARD R. ALBRECHT
GENERAL COUNSEL OF THE TREASURY DEPARTMENT
BEFORE
AMERICAN BAR ASSOCIATION
INTERNATIONAL LAW SECTION NATIONAL INSTITUTE ON
CURRENT LEGAL ASPECTS OF FOREIGN INVESTMENT IN THE U.S.
CHICAGO, ILLINOIS OCTOBER 3, 1975

"GOVERNMENT ACTIVITIES AND ATTITUDES AFFECTING FOREIGN INVESTORS"

Mr. Chairman and participants in the Institute, it is a pleasure to be with you this afternoon and to share the podium with Stan Katz of the Commerce Department for a discussion of Government activities and attitudes affecting foreign investors. In a sense, the sharp increase in concern over foreign investment that has materialized over the last year or so is a rather remarkable development. It was not long ago that the focus of concern in this area was on U.S. investment abroad. In fact, the rising interest in inward investment coincided with the phasing out of United States capital controls on direct investment abroad.

Foreign investment in the United States, of course, is not new. It is well known that foreign capital played an important role in the development of our growing nation in the nineteenth century. Foreign capital remained a factor during most of this century but it gradually became much less important. However, a number of economic and monetary factors led to a surge of foreign investment, primarily from Europe and Japan, in 1973.

Nonetheless, the sources of foreign investment here by country of origin have not changed very much, coming mainly from a few countries such as Canada and the United Kingdom with which we have long enjoyed close ties. Although there have long been foreign-controlled companies in the United States, most investment is at the portfolio level and does not raise the specter in the eyes of the public that goes with the idea of foreign control. However, the dramatic increase in oil prices following the oil embargo and the large increase in investible reserves accumulated by the oil-producing countries in 1974 spurred new fears that foreign interests would buy up dominant positions in the largest and most important American companies.

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The traditional policy of the United States has been to admit foreign investment to the United States freely and to treat it on the same basis as domestic investment. This is consistent with our general philosophy that the free flow of capital across international boundaries must remain, insofar as possible, undistorted by artificial impediments and incentives. Foreign investors have been offered no special incentives to attract them to the United States and we impose no special barriers to entry. A few internationally recognized exceptions for such key areas as communications, natural resources, and banking are usually embodied in our treaties of Friendship, Commerce and Navigation. These treaties accord foreign investors national treatment with regard to the establishment and carrying on of businesses in the United States and permit the acquisition of majority interests in American companies.

The rising concern over foreign investment in mid-1973 caused the Administration to conduct a review of foreign investment policies. This review led us to conclude that the concern that existed at that time was largely unjustified and there was no sound economic or national security basis for new restrictions. However, the Administration concluded that it would take steps to improve the Government's data on foreign investment. In this regard, legislation then pending in the Senate called for new studies of both direct and portfolio investment. The last comprehensive surveys of foreign investment in the United States were done in 1959 and 1941 respectively.

Accordingly, the Administration worked very closely with the Congress on the Foreign Investment Study Act of 1974. The Act was signed by President Ford on October 26, 1974. At the time he signed the legislation, the President reaffirmed that the Act was intended to facilitate the gathering of information, and it should not be regarded as a sign of change in America's traditional open door policy toward foreign investment. The President stated that the Administration would oppose any new restrictions on foreign investment in the United States except where absolutely necessary for national security or other essential national interest purposes.

Under the authority of the Foreign Investment Study Act, the Departments of Commerce and Treasury are conducting benchmark surveys of foreign investment as of the end of December 31, 1974. Commerce is conducting the direct investment survey, while Treasury is surveying portfolio investment. The two Departments will survey the reasons and the effect of foreign investment and the means through which it takes place. They will conduct through consulting firms a thorough study of the effect of Federal securities laws and regulations on foreign investment and will compare United States laws with those of selected foreign nations.

Finally, the study will include an evaluation of present information-gathering programs.

In carrying out the statistical part of its portion of the study, Treasury has required certain United States issuers of securities and United States holders of record acting on behalf of foreign investors to file survey questionnaires.

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United States issuers of securities are required to file Form FPI-1. The form asks for identifying data on outstanding equity and debt obligations. The firms are required to indicate the portion of each issue held directly by U.S. persons, the portion held by U.S. holders of record, and the amount held by foreign persons. For each security held by foreign persons, firms are required to indicate whether the foreigner is for example, an individual, an official institution; a bank, broker, or nominee; or other type of firm. A country by country breakdown on the source of investment is also required.

United States holders of record are required to report securities held by them for foreign accounts on Form FPI-2. The accounts are not to be individually identified but are to be categorized by type of investor and country of origin.

By utilizing the two types of reports, and various identifying data on company securities, through computer work, the Treasury staff should be able to develop an accurate composite picture of foreign investment in U.S. firms held either directly or through nominees. An interim report on the results of the survey will be submitted to Congress in the near future.

In addition, the analytical portion of the study mandated by Congress is being vigorously pursued. Treasury has divided this portion of its study into two projects--"Institutional Aspects of Foreign Investment in the United States" and "Legal Aspects". The Department has contracted with a consulting firm to conduct both studies, and they have already begun their work. The firm will be conducting extensive interviews in the United States and abroad with leading financial institutions including brokerage firms, investment advisors, law firms, and banks, as well as with Government agencies.

In addition to a thorough study of U.S. laws affecting portfolio investment--with particular emphasis on U.S. securities laws--a survey and comparison will be conducted of the laws of the United Kingdom, France, Germany, Switzerland, Japan, Canada, Australia, and Mexico. Laws affecting portfolio investment in key states such as New York, Delaware and California will also be reviewed.

The Federal Government has made other recent efforts to improve governmental data-gathering. In the fall of 1974, the Executive Branch conducted an extensive survey of reporting and disclosure requirements of 21 Federal agencies and regulatory commissions ranging from the SEC to the Defense Department. The study revealed that extensive data collection and reporting activities were being carried out by many agencies of the Federal Government; but that no single agency either coordinated, compiled or disclosed to the public a full picture of foreign investment in the U.S.

Further, the reporting requirements are often not designed specifically for the collection of foreign investment data. While much information reported to Federal agencies identifies individual investors by name and domicile or address, in only a limited number of instances are investors specifically identified by nationality. Most information is collected after the investment is already made; there are few requirements for potential foreign investors to give advance notice of an intention to make an investment.

The study indicated that agencies obtain an enormous amount of useful information on foreign investment but it is not centralized in a way that bears on the possible problem of foreign control of U.S. industry as such. The new Administration arrangements that I will discuss in a moment attempt to deal with this problem, among others.

In the fall of 1974, the SEC announced an investigation into the concept of "beneficial ownership" as the term is used for purposes of Section 13(d) and 14(d) of the Securities Exchange Act of 1934 and other SEC reporting requirements. The SEC held hearings and conducted a detailed study which resulted in proposals on the definition and reporting of beneficial ownership that were announced in Securities Act Release No. 5609 on August 25, 1975. The proposals would provide standards for determining beneficial ownership for purposes of Sections 13(d) and 14(d). They would require more disclosure in Schedule 13D about the nature of the beneficial ownership of securities. Among other matters the proposals would require disclosure of the investor's nationality and would define beneficial ownership as extending to a fairly comprehensive range of legal or equitable ownership interests in a security whether held directly or indirectly.

In testimony before Congress on proposed foreign investment legislation, Administration witnesses have brought out the role of the SEC reporting requirements in disclosing acquisition of substantial ownership interests in public corporations. In testimony on March 4, 1975, Jack Bennett, who was then Under Secretary for Monetary Affairs, indicated that the Administration was opposed to detailed new disclosure obligations being imposed on foreign investors alone but could agree to improvements in present reporting standards that would be applicable to United States and foreign investors alike. Accordingly, the SEC proposals deserve careful study. The proposals are open for public comment until November 30. I would encourage those of you who have not seen the SEC release to obtain it and to pass along any observations you may have to the Commission.

Since accumulation of large investible reserves by the OPEC countries has provided a major impetus for proposed foreign investment legislation, I would briefly like to discuss OPEC investment from the standpoints of both magnitude and investment objectives.

At the outset, I would like to emphasize that, based on extensive discussions by Treasury officials with the leaders of the OPEC countries, the Treasury does not believe there is a threat that the oil producers will use their investments to dominate or disrupt sectors of the U.S. economy.

In fact, overall investment flows from the OPEC countries are not likely to approach some of the early projections. Of the 60 billion in surplus revenues accumulated by all OPEC members in 1974, $11 billion were invested in the United States. And of that amount substantially less than $1 billion was placed in "permanent" investments--stocks, long-term corporate bonds or real estate. It is anticipated that the total amount of OPEC surplus funds will decline to $42 billion in 1975. Although a larger proportion of funds may be placed in long-term instruments, it is unlikely that a disproportionate amount will flow to the U.S.

Recent trips to the Middle East by Treasury officials and contacts in meetings of the joint commissions that we have formed in partnership with certain Middle Eastern countries lead us to believe that these countries neither have the desire nor the capacity to control and manage American companies. They have what could be described as institutional investor objectives, and seek a diverse portfolio of investments that will yield the best long-term return.

Notwithstanding our belief that the OPEC countries will pursue responsible investment policies, early this year we instituted a major interagency review of foreign investment policy to see whether our existing legal resources remained adequate to deal with any problems that might arise.

An important focus of the 1975 review was on existing substantive laws that serve to protect our national interests against foreign control of critical industries or against abuses of foreign investment here. These laws are briefly summarized in the Treasury pamphlet that was distributed with the program materials. We have also had the benefit of Russell Baker and Monroe Leigh's comprehensive discussion of this area yesterday afternoon. Accordingly, I will not go further into specific provisions of these laws.

In addition to consideration of laws that apply in specific industry categories, there are more general safeguards. For example, the Defense Department may deny security clearances required to do classified work for the Government to any firm under "foreign ownership, control or influence." Foreign ownership of producers of defense materials is not expressly prohibited; but it is significantly deterred by the prospect of loss of classified Government business. Also exports of arms and of classified technology related to defense manufacture are restricted.

Our antitrust laws prevent a foreign investor from monopolizing a specific sector, or engaging in various anti-competitive practices. They also prevent a foreign investor or a group of foreign investors acting in concert from purchasing, merging with, or establishing a joint venture with, a U.S. firm if the result would be to lessen competition substantially or tend to create a monopoly.

The securities laws require disclosure of significant foreign ownership, prevent harmful activities with respect to tender offers and stock price manipulation, and provide for the preservation of an orderly market.

Our export control authority provides protection against the export of <u>any</u> product or resource if national security is threatened, if there is an excessive drain of scarce materials and a serious inflationary impact from foreign demand, or if controls are needed to further U.S. foreign policy. Special, more stringent, rules apply to exports of armaments and energy materials.

The Government also has emergency powers, including the Trading with the Enemy Act. The Act gives the President the power during a war or national emergency to regulate or prohibit transactions in, or the exercise of any right with respect to, any property in the U.S. in which any foreign country or national thereof has any interest. Priority performance powers authorize the President to order the priority performance of defense-related contracts.

In sum, the review confirmed that extensive information with respect to foreign investment and safeguards for the particular investments are provided under the existing laws. We concluded, however, that in addition to enforcing rigorously the existing laws, we should supplement existing arrangements.

Thus, earlier this year, the Administration announced plans to establish a new continuing high-level, inter-agency committee to insure that foreign investments in the United States are consistent with our national interest. Also announced was the creation of a new office in the Department of Commerce to serve the committee and other parts of the Government by monitoring foreign investment and centralizing and improving information-gathering on foreign investment. At the same time, the Administration concluded that there was no need for any new legislation or regulations other than possible legislation or administrative regulations being considered by the SEC to deal more effectively with the beneficial ownership problem.

On May 7, 1975, the President issued Executive Order 11858 establishing the Committee on Foreign Investment and giving the Secretary of Commerce authority to set up an Office of Foreign Investment. I understand that Stan Katz is going to provide you with the details on the work of the new office in Commerce.

The Executive Order gave the Committee on Foreign Investment primary continuing responsibility within the Executive Branch for monitoring the impact of both direct and portfolio foreign investment in the United States and for coordinating the implementation of United States policy on such investment. In addition, the Committee has two prime responsiblities. It provides for advance consultations with foreign governments on prospective major foreign governmental investments. It reviews investments in the United States which, in its judgment, might have major implications for United States national interests.

The Committee membership consists of representation at assistant secretary level or above from Departments of State, Treasury, Defense, Commerce, the Assistant to the President for Economic Affairs, and the Executive Director of the Council on International Economic Policy. The Treasury representative, who is usually the Under Secretary for Monetary Affairs, chairs the Committee.

At the Committee's first meeting on May 20 of this year, it reviewed procedures being developed for advance consultations with foreign governments on their major prospective investments in this country. It is anticipated that consultations with foreign governments will take place through diplomatic channels. Investments having major implications for United States national interests are to be brought to the attention of the Committee through the Secretary of the Committee whose office is in the Main Treasury Building in Washington.

It may be useful for me to explain how the Committee might review a major foreign government investment proposal. Most commonly, Committee involvement in a particular case would be initiated by the receipt from a foreign government of notification of its intent to make an investment.

Such a proposal from a foreign government is analyzed initially by the staff of the Secretary of the Committee in the Treasury Department. The action taken will be determined in accordance with the facts in the case. The Committee could, for example, simply indicate that it had "no objection" to the investment. Alternatively, the Committee may decide to request consultations and to initiate a more extensive review procedure. It is anticipated that only a few investments that come before the Committee will reach the stage in which extensive consultations would be required.

The Committee would handle private investments somewhat differently. A critical difference is that private investors have not been specifically requested to enter into prior consultations even in the event that a private investment came to our attention that could clearly have major implications for our national interest, it would be up to the Committee's discretion to initiate a review of the investment and to ask the parties involved to consult with it. Private investors are not expected to routinely bring investment proposals before the Committee for review or clearance. It is a matter of Committee judgment in individual cases as to what combination of factors in a private investment might warrant Committee attention. The Committee is not vested with the Administration of any laws or regulations and merely serves as a forum for interagency discussion of investments and for making recommendations, if appropriate, to the Economic Policy Board and the National Security Council.

The Committee was primarily established for purposes of reviewing major foreign governmental investments. In dealing with foreign governments, the Administration has a political avenue through which to pursue consultations regarding any perceived difficulties that an investment might pose. Our experience tends to indicate that foreign governments are generally willing to take account of our problems and desires in their investment planning. Nonetheless, the way was left open for Committee consideration of selective private investments for two reasons. First, it is sometimes difficult to discern what degree of participation by a governmental entity renders an investment a "governmental" investment. Further, a wholly private investment could involve exceptional factors that would suggest major implications for our national interests that would make Committee review desirable.

In recent sessions the Committee has considered several general policy issues concerning foreign investment in the United States and has looked at a very small number of proposed investments. The most recent specific investment issue brought before the Committee was the proposed Imetal acquisition of the Copperweld Corporation. In the Copperweld case, after a review of the facts, the Committee concluded that it should not interpose itself in the investment.

In this connection, I would note that the Executive Order provides that the data-gathering, regulatory, or enforcement authority over foreign investment of any existing department or agency is not affected by the order. Further, the review of individual investments by the Committee does not in any way supersede or prejudice any other process provided by law. The Chairman of the Committee, as he deems appropriate, may invite representatives of departments and agencies not permanently represented on the Committee to participate in Committee deliberations.

As many of you are aware, there are many items of proposed foreign investment legislation pending in the 94th Congress. While the proposals are diverse, they may be generally grouped into two categories--proposals for new substantive restriction, regulation, or prescreening of foreign investment, and proposals for more specific and detailed disclosure of investment by foreigners.

The proposals for substantive regulation or prescreening range from bills that would regulate foreign acquisitions in a single important area such as ownership of natural resources, to broad proposals for regulation of any significant foreign acquisition of an interest in an enterprise deemed "essential" or "important" to our national security or economic security. Certain proposals would place an absolute percentage limit on foreign ownership in any public company. Others would require advance notification of prospective investments and permit investments to be blocked in the discretion of the President or some administrative official.

The Administration has opposed enactment of such measures, some of which are severely restrictive, on the grounds that they would be inconsistent with our overall policy of promoting a free and open environment for international investment, that they would violate international obligations, and that they would be harmful to the American economy.

The second category of bills, disclosure legislation, is motivated by a desire, which we share, to improve our information on foreign investment. However, some of the proposals would require very detailed disclosure of investment activities by foreigners that would not be demanded of American investors. In addition, the proposed reporting threshold with respect to certain investments is in some cases quite low and unrelated to any perceivable threat to United States interests. While the Administration appreciates the concerns that underlie such legislation, it has recommended that such bills not be enacted. Our existing programs provide a great deal of information on foreign investment. Those programs are under continuing evaluation with a view to their improvement. Examples are the SEC initiative on beneficial ownership, the mandate of the new Commerce office, and the evaluation of such programs required by the Foreign Investment Study Act. In addition, legislation aimed solely at foreign investors could be interpreted abroad as hostile and discriminatory and could provoke retaliation.

This year, foreign investment bills have in some cases attracted amendments that would restrict investment by foreign firms involved in some manner in the Arab boycott. While we are firmly opposed to the boycott, we do not believe that the boycott issue is properly handled by altering our traditional policies of a free and open market for trade and investment. The boycott arose as part of the continuing conflict between the Arab countries and Israel, and it will most effectively be dealt with in that context. We do not believe it would be effective to reflect out opposition to the boycott by adopting restrictive laws in the investment area.

An important aspect of the foreign investment issue is the vital stake the United States has in maintaining an international investment climate conducive to the overseas operations of American business. American firms operate extensively abroad through controlled foreign corporations and wholly-owned subsidiaries. The United States is by far the largest foreign investor in the world. The book value of our direct investments overseas is many times the book value of all direct investment in this country. Any turning back to restrictive practices on our part could provoke retaliation by other nations. Thus, while we will make every effort to keep informed on foreign investment here, we will seek to maintain our traditionally unrestrictive investment climate.

Among other things, foreign investment can play an important role in meeting the tremendous capital needs that the United States will be facing in the years immediately ahead. It would be self-defeating to close off our capital markets to foreign investors. Occasionally it is forgotten that some American companies whose names are household words are partially or totally-owned by foreign investors. Companies such as Shell, Lever Brothers, and Nestle, yield the U.S. many of the same economic benefits as their domestically-owned counterparts--that is, employment opportunities, tax revenues, and competitively-priced goods and services.

In sum, we believe that our traditional policy of maintaining an "open door" policy toward foreign investment still serves the best interests of the United States as well as of the world economy.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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Contact: Stanley Sommerfield
964-2394

MEMORANDUM FOR THE PRESS: October 3, 1975

The Treasury Department announced today revocation of Sections 515.412 and 515.541 of the Cuban Assets Control Regulations governing trade with Cuba by foreign firms owned and controlled by Americans. The effect of the change is to improve the administration of the controls by transferring compliance responsibility from individual American citizens who are officers or directors of foreign firms to the firms themselves.

The Department noted that its licensing policy is being modified to permit liberal issuance of licenses for foreign subsidiary trade with Cuba as announced by the Department of State on August 21, 1975.

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FOR RELEASE AT 4:00 P.M. October 3, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,100,000,000 , or thereabouts, to be issued October 16, 1975, as follows:

91-day bills (to maturity date) in the amount of $3,000,000,000, or thereabouts, representing an additional amount of bills dated July 17, 1975, and to mature January 15, 1976 (CUSIP No. 912793 YP5), originally issued in the amount of $2,905,110,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,100,000,000, or thereabouts, to be dated October 16, 1975, and to mature April 15, 1976 (CUSIP No. 912793 ZC3).

The bills will be issued for cash and in exchange for Treasury bills maturing October 16, 1975, outstanding in the amount of $5,507,970,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,427,595,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Friday, October 10, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

(OVER)

securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on October 16, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 16, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

Department of the TREASURY
OFFICE OF REVENUE SHARING
WASHINGTON, D.C. 20226
NEWS
TELEPHONE 634-5248

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FOR IMMEDIATE RELEASE
FRIDAY, OCTOBER 3, 1975
Contact: Priscilla R. Crane (202) 634-5248

In the first quarterly payment of general revenue sharing funds allocated for the sixth entitlement period (July 1, 1975-June 30, 1976) the U. S. Treasury Department's Office of Revenue Sharing today issued checks to 34,859 states and local governments. The amount paid was $1,530,859,393.

Today's payment brings to $21,930,612,192 the total amount of money returned to states and local governments since the first revenue sharing checks were mailed, in December 1972.

One state and approximately 3,000 local governments were not sent $113,303,700 which they had been entitled to receive, for the following reasons:

-- Money is still being withheld from the City of Chicago, pursuant to court order. The City of Chicago was entitled to receive $18,714,979 in today's payment. However, in December 1974, the U. S. District Court of the District of Columbia ordered the Office of Revenue Sharing to withhold future payments from the City pending the outcome of litigation in the U. S. District Court for the Northeastern District of Illinois in which the City of Chicago is alleged to have discriminated in activities funded with shared revenues. The Office of Revenue Sharing has alleged that the City of Chicago used shared revenues to pay salaries in the City Police Department where hiring and promotion practices were discriminatory. Since the December 1974 court order, the Office of Revenue Sharing has withheld a total of $76,301,879 from the City of Chicago.

-- The State of Michigan was not sent its October check in the amount of $22,247,437 today, because it failed to submit specific assurances to the Office of Revenue Sharing that the State will not use shared revenues in a discriminatory activity. The Office of Revenue Sharing has determined that the State of Michigan discriminated in the use of previous revenue sharing payments and the Treasury Department has referred the matter to the U. S. Justice Department for civil action.

The State of Michigan put its early revenue sharing money into a state Public School Employees Retirement Fund which benefitted all retired public school employees, including those from the segregated Ferndale school district.

The Office of Revenue Sharing has asked the State of Michigan for specific assurance that future revenue sharing payments will not be used in support of the segregated Ferndale school district, or any other secondary recipient which discriminates.

The State of Michigan has not yet decided to provide the required assurance.

-- More than 3,000 local governments were not sent checks today because they failed to file one or both of two reports that are required by revenue sharing law. The two reports are: the Sixth Entitlement Period Planned Use Report, on which all eligible governments were to have reported their plans for uses of sixth entitlement period funds; and the Fiscal Year 1975 Actual Use Reports, on which expenditures and other obligations of revenue sharing funds between July 1, 1974 and June 30, 1975 were to have been reported. The Planned Use Report was sent to all units of general-purpose government in April 1975 and was to have been returned in June. The Actual Use Report form was distributed in June and had a due date of September 1.

The Office of Revenue Sharing gave several notices to governments that had not returned the reports by September 1. Of more than 5,000 governments whose reports were delinquent at that time, approximately 2,000 responded to the reminders in time to receive their October checks on schedule.

Governments that return their reports late will receive their October money together with the next regularly-scheduled payment, in January 1976.

The General Revenue Sharing program is authorized by Title I of the State and Local Fiscal Assistance Act of 1972. The $30.2 billion, five-year program is due to expire in December 1976, unless Congress renews it. President Ford has asked the 94th Congress to act promptly to renew the program, in order that state and local financial planning may proceed in an orderly manner.

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Contact: L.F. Potts
x2951

FOR IMMEDIATE RELEASE October 6, 1975

ANTIDUMPING INVESTIGATION INITIATED ON AC ADAPTERS FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today the initiation of an antidumping investigation on imports of AC adapters from Japan.

Notice of this action will be published in the Federal Register of October 7, 1975.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition alleging that dumping was occurring in the United States. The information received tends to indicate that the prices of the merchandise sold for exportation to the United States are less than the prices for home consumption in Japan.

Imports of the subject merchandise from Japan during calendar year 1974 were valued at roughly $5.6 million.

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FOR IMMEDIATE RELEASE October 6, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.1 billion of 13-week Treasury bills and for $3.2 billion of 26-week Treasury bills, both series to be issued on October 9, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 8, 1976			26-week bills maturing April 8, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.440 a/	6.171%	6.37%	96.685 b/	6.557%	6.89%
Low	98.402	6.322%	6.53%	96.669	6.589%	6.93%
Average	98.423	6.239%	6.44%	96.678	6.571%	6.91%

a/ Excepting 1 tender of $30,000
b/ Excepting 1 tender of $900,000

Tenders at the low price for the 13-week bills were allotted 30%.
Tenders at the low price for the 26-week bills were allotted 55%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 55,500,000	$ 55,500,000	$ 51,205,000	$ 26,665,000
New York	2,826,370,000	2,245,770,000	4,263,620,000	2,827,290,000
Philadelphia	32,965,000	32,965,000	62,715,000	48,215,000
Cleveland	50,650,000	50,650,000	181,380,000	31,320,000
Richmond	39,195,000	39,195,000	54,895,000	19,745,000
Atlanta	50,790,000	50,590,000	39,560,000	27,920,000
Chicago	214,475,000	214,455,000	292,405,000	64,005,000
St. Louis	58,625,000	58,625,000	58,425,000	34,425,000
Minneapolis	29,395,000	29,395,000	59,665,000	6,365,000
Kansas City	55,485,000	55,485,000	31,070,000	28,020,000
Dallas	33,750,000	33,750,000	20,780,000	15,280,000
San Francisco	233,680,000	233,680,000	236,375,000	71,375,000
TOTALS	$3,680,880,000	$3,100,060,000 c/	$5,352,095,000	$3,200,625,000 d/

c/ Includes $583,005,000 noncompetitive tenders from the public.
d/ Includes $302,105,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Contact: Donald Cameron
x2951

FOR IMMEDIATE RELEASE October 7, 1975

TREASURY DEPARTMENT ANNOUNCES COUNTERVAILING DUTY INVESTIGATION ON GLASS BEADS FROM CANADA

Assistant Secretary of the Treasury David R. Macdonald announced today the intiation of a countervailing duty investigation against glass beads produced by Canasphere Industries, Ltd. of Moose Jaw, Saskatchewan. A "Notice of Receipt of Countervaili~g Duty Petition and Initiation of Investigation" will be published in the Federal Register of October 8, 1975.

Under the U.S. Countervailing Duty Law (19 U.S.C. 1303) the Secretary of the Treasury is required to assess an additional customs' duty which is equal to the amount of the "bounty or grant" that has been found to be paid or bestowed on imported merchandise. The Law requires that a final decision as to the existence or non-existence of a bounty or grant be issued by no later than twelve months after the date of receipt of the countervailing duty petition. A preliminary determination to this effect is required under the Law by no later than six months after the date of receipt of the petition.

The investigation of imports of glass beads produced by Canasphere Industries stems from a petition received from a domestic industry that alleges that this merchandise receives "bounties or grants" in the form of regional incentives from Canadian federal, state and local governments. The Treasury has until February 25, 1976 to issue a preliminary determination as to whether a bounty or grant exists. A final determination must be rendered by no later than August 25, 1976.

During calendar year 1974 imports of glass beads manufactured by Canasphere Industries totaled approximately $328,500.

* * * *

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FOR IMMEDIATE RELEASE October 7, 1975

The United States and the Republic of the Philippines Discuss an Income Tax Convention

The Treasury Department today announced that discussions were held in Manila from September 30 through October 3, 1975, between representatives of the United States of America and the Republic of the Philippines to consider a new treaty for the avoidance of double taxation of income.

Substantial progress was made during these discussions, and it is anticipated that further discussions will be held later this year in Washington, D.C.

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WS-401

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE EDWARD C. SCHMULTS
UNDER SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON CIVIL AND CONSTITUTIONAL RIGHTS
OF THE HOUSE COMMITTEE ON THE JUDICIARY
WEDNESDAY, OCTOBER 8, 1975, 1:30 P.M., EDT

Mr. Chairman and Members of the Subcommittee, I am pleased to be here today to testify about the civil rights implications of the General Revenue Sharing program. I recognize the importance of these hearings. The requirement that there be no discrimination in the use of shared revenues is of central importance to the success of this new type of Federal inter-governmental assistance. It is absolutely essential that Federal funds supplied through revenue sharing are not used to support any program or activity that discriminates against any of our citizens.

I am familiar with at least some of the issues which these hearings will address. I have been closely concerned with the revenue sharing program for over a year now. In a recent Departmental reorganization, my office, that of Under Secretary of the Treasury, was assigned general responsibility over the Office of Revenue Sharing. I also served as chairman of an inter-agency task force which reviewed the revenue sharing program and made recommendations concerning its renewal.

The nondiscrimination requirement underlying revenue sharing is clearly and definitely stated in the Act that authorized the program. Section 122 of the State and Local Fiscal Assistance Act of 1972 provides that there shall be no discrimination on the grounds of race, color, national origin or sex in any program or activity funded in whole or part with shared revenues. The specific prohibition against sex discrimination is one that was not included in the protections provided in prior Federal programs. The revenue sharing act

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then outlines the steps that can be taken by the Secretary of the Treasury and the Attorney General in assuring compliance with the nondiscrimination provision.

The Administration's review of the revenue sharing program led us to propose one important change in the nondiscrimination provision of the present statute. H.R. 6558, the Administration's renewal bill specifically sets forth the remedies available to the Secretary of the Treasury to assure that shared revenues are not used to support discriminatory activity.

The proposed renewal statute specifies that where discrimination is found the Secretary of the Treasury will have the option of withholding the entire amount of a recipient's entitlement or of limiting the withholding to those funds directly involved in the discriminatory program. The Secretary is also specifically authorized (1) to terminate the eligibility of a jurisdiction to receive future payments and (2) to require repayment by a jurisdiction of revenue sharing funds expended in a discriminatory program.

Two ends would be accomplished by these changes. First, it is arguable that the present statute, through references to Title VI of the Civil Rights Act of 1964, limits withholding and termination to the local program for which there has been a finding of noncompliance. It can also be argued that since Title VI does not authorize repayment, the existing GRS statute would not permit this either. As a result, present revenue sharing regulations, by authorizing these remedies, might be said to exceed what is permitted under the present law. The change proposed would explicitly authorize both actions. Our primary goal here is to eliminate possible confusion and counterproductive litigation.

The second end that would be served by the proposed amendments would be the establishment of a more flexible, usable tool for enforcement. In cases where it is appropriate to withhold only part of a jurisdiction's entitlement, such action lessens the unnecessary harm caused to citizens benefiting from funds not utilized in a discriminatory manner. It should be noted that the Secretary could withhold all shared revenues going to a jurisdiction should there be any doubt about which portion of the entitlement was being used in violation of the Act. This sanction could also be applied where recipients purposely redirect revenue sharing funds in relation to their own revenues in order to avoid compliance.

To enforce the nondiscrimination requirement of the revenue sharing statute, the Office of Revenue Sharing has developed a civil rights compliance program in which internal resources are buttressed through a system of cooperative arrangements with other Federal compliance agencies, with State human rights agencies, and with State audit offices. This approach has four general benefits. First, it enables ORS to supplement its own capabilities with resources provided by compliance agencies with similar interests and overlapping program responsibilities. Secondly, it contributes to the coordination of existing civil rights compliance programs. Thirdly, it provides a better means of dealing with the enormous jurisdictional and functional scope of revenue sharing. Finally, by utilizing State and local resources to the extent feasible, it reaffirms the basic thrust of the revenue sharing program.

The Treasury Department and the Office of Revenue Sharing do not plan to relinquish the ultimate responsibility for assuring nondiscriminatory use of shared revenues. While we are utilizing resources made available by others, we feel that we have the responsibility to monitor the effectiveness of the cooperative efforts that other agencies are making in our behalf. Furthermore, we believe that we must retain the responsibility of making final determinations in revenue sharing compliance cases. To completely shift compliance responsibility to another agency would insulate us from controversy. We do not believe, however, that such a course of action would promote effective enforcement of the nondiscrimination requirement of the revenue sharing statute. Other Federal agencies to which responsibility for revenue sharing civil rights matters might be transferred, such as the Justice Department or the Equal Employment Opportunity Commission, have their hands full with their own programs and caseloads. Justice, furthermore, is organized to deal with civil rights problems through litigation, rather than the administrative process. Both elements are clearly important parts of a total Federal civil rights strategy.

The number and nature of recipients and the degree to which funds are spread among State and local functional activities make civil rights enforcement under revenue sharing a somewhat unique undertaking--an undertaking that is different from most program concerns of other compliance agencies. Finally, if the Office of Revenue Sharing were not to continue to have responsibility for civil rights determination, there would still be need for extensive coordination between whomever were to assume such responsibility and ORS in its role of administering and auditing the underlying revenue sharing program.

Despite our efforts to make use of existing outside civil rights compliance resources where appropriate, we recognize that primary responsibility still rests with our small ORS staff. The Office of Revenue Sharing has an authorized staff of 108 for Fiscal Year 1976. As of the present, we have about 90 full time employees. There are thirty positions in the Compliance Division. In the civil rights area, the efforts of five ORS civil rights specialists (a number which will be increasing to ten during FY 1976) are supplemented by those of fifteen Compliance Division auditors and six lawyers from the Office of Chief Counsel. Further, the Intergovernmental Relations Division with nine professionals and the Public Affairs Manager play an important role in informing recipient governments of their civil rights responsibilities and citizens of their rights.

Those involved in ORS civil rights efforts have many responsibilities. For example, they must react to complaints, assist with court cases, deal with problem situations brought to light through information generated outside of ORS, spot-check on and improve the operation of various cooperative relationships, and continue to publicize the nondiscrimination requirements of the program. As part of its responsibilities, the civil rights branch of the ORS Compliance Division had conducted 51 field reviews and 13 reviews of investigations by other Federal agencies as of mid-September, 1975. Our civil rights caseload is a substantial one and there is a significant backlog. As of September 30, 1975, ORS had received 177 civil rights cases, of which 49 had been resolved. This 177 was part of a total of around 630 compliance cases of all sorts.

We have believed for some time that the efficiency of our complaint resolution process could be improved, and we have been working hard to do so. The addition of more civil rights compliance officers to the staff is one important step in this direction. Further, we have developed an improved case work-load control system to help keep track of the status of various cases and to let us know which ones need priority attention. This system also gives us the capability to analyze our caseload from the standpoint of more efficient utilization of staff.

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Other improvements in procedures which ORS is making are reorganization of its staff; greater formalization of working procedures; better record keeping; and improvement of the violation determination letter which goes to a recipient government found not to be in compliance.

Besides acting on complaints, the Office of Revenue Sharing has long been aware of the need to develop better means of identifying instances of discrimination. ORS is currently in the process of developing the capacity to utilize statistics on employment derived from the EEO-4 forms and from Census labor force data to identify potential employment discrimination. Of course, one key element of ORS's various cooperative agreements is to identify situations where there may be discrimination.

The Office of Revenue Sharing has signed formal cooperativ agreements with the Equal Employment Opportunity Commission, the Department of Justice, and the Department of Health, Education, and Welfare. Efforts are being made to negotiate an agreement with the Department of Housing and Urban Development. Procedural implementation of the EEOC agreement is being worked out. The EEOC has already issued instructions to its regional offices about new procedures. The HEW agreement will soon be fully implemented at the field level.

At this stage in the process, the cooperative agreements ORS has entered provide for the exchange of compliance information, the coordination of investigations and negotiations, and joint enforcement action. It is quite possible that in the future there will be a complete substitution of investigative effort on a case-by-case basis and agreement to mutally rely on the subsequent fact finding needed to make compliance determinations.

Cooperative agreements have already yielded several imporant benefits:

- Access to EEOC complaint information by auditors working under ORS State audit agreements;

- Exchange of ORS 15-day initial notification letters and HEW Title VI compliance information;

- Nineteen civil rights reviews either have been conducted jointly with Justice or conducted for ORS by Justice.

The Office of Revenue Sharing is also utilizing State human rights agencies as a source of compliance information and investigative and monitoring support. Ten agreements have been signed with State "706 agencies". These are State human rights agencies which EEOC gives 60 days to act on an EEOC case under State law before proceeding itself. EEOC also gives findings by "706 agencies" "substantial weight" in its own deliberations. ORS has established working relationships with two State human rights agencies that have not been certified by the EEOC.

The ORS--State human rights agency agreements generally provide for the exchange of compliance information, and for cooperation and coordination in investigating complaints and monitoring compliance. The Office of Revenue Sharing gives "substantial weight" to the findings of EEOC certified State agencies but is retaining responsibility for making its own final determination in compliance cases.

The Administration is aware that some State human rights agencies have limitations in their capacity to help with revenue sharing civil rights enforcement. Yet we believe that greater results can be achieved through cooperative action than through completely independent and uncoordinated efforts. Further, there is the possibility that coordination with ORS will give these agencies--as well as ORS--greater ability to successfully resolve discrimination issues.

There have already been several instances where investigations by State human rights agencies have been part of the basis for an ORS determination of noncompliance. ORS, on its part, supplies copies of "15-day letters" informing recipients of allegations of discriminatory conduct, to the State agency concerned. ORS has also supported State agency efforts to obtain information from local governments.

A third element in ORS's efforts to supplement its own compliance resources with those already in place, is its system of agreements with State audit agencies. Forty-three

States are covered by agreements that involve the auditing of forty State governments and approximately 15,000 local governments. Approximately 50 percent of all GRS allocations are covered by these agreements.

Under most ORS--State audit agency agreements, State audit offices assume responsibility for auditing the use of shared revenues by State and local agencies. Often, also included is a review of the work of Independent Public Auditors employed by localities. Essentially the State auditors expand their own audits to include General Revenue Sharing funds and to incorporate the standards of the ORS Audit Guide and Standards for Revenue Sharing Recipients. The degree of coverage of State, local, and Independent Public Auditor audits varies from one agreement to another.

On the local level about 32 percent of funds and 30 percent of recipients nationwide are audited by Independent Public Auditors. The work of some of these is reviewed by cooperating State agencies. Many Independent Public Auditors also utilize the ORS Audit Guide.

One part of the ORS Audit Guide is a checklist of civil rights questions which the auditor is to cover. Reports of audits which have detected noncompliance with various standards of the Audit Guide are sent to ORS for review by the audit staff of the Compliance Division.

(MORE)

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While the potential of the audit system as a means of detecting civil rights violations is evident, to date it has been of limited success in serving this function. We hope to be able to improve its ability to do so. Nevertheless, the existing audit system performs well in carrying out its other functions. It appears to be the best way available to assure that the basic legal and financial requirements of the State and Local Fiscal Assistance Act are observed. ORS auditors also compliment the efforts of the civil rights compliance staff by providing necessary information on the placement of shared revenue by recipients and by assisting in on-site investigations.

There is one final aspect of the Office of Revenue Sharing strategy to combat discriminatory use of shared funds which should not be overlooked. This is the deligent effort by ORS's Intergovernmental Relations and Public Affairs Divisions to inform the 39,000 recipient jurisdictions of their civil rights responsibilities, and to inform citizens of their rights under the Act. This role is important since many recipients otherwise would have limited contact with the Federal government and little interest in national civil rights standards.

I would like to list some of the major efforts ORS has made to this end:

- Bi-monthly publication of the Reve-news newsletter, the last three issues of which have included major civil rights articles. (Distributed to Congress, media, interest groups and associations.)

- Letters accompanying entitlement checks during Entitlement 5 all contained civil rights information for recipients. (Distributed to all recipient governments.)

- Distribution of 160,000 copies of the pamphlet "Getting Involved" containing important civil rights material. (Distributed to recipients with populations over 5,000, organizations and associations, media.)

- Publication of the pamphlet "General Revenue Sharing and Civil Rights". (Distributed to all recipients, to organizations and associations, at conferences.)

- Development with EEOC of a guidebook for recipients to use to eliminate discrimination. (In the process of development.)

- Participation by ORS staff in panel groups and as speakers at around thirty human rights oriented gatherings between May, 1973, and July, 1975.

- Participation by ORS in intrastate training project meetings, with public officials and organizations, where civil rights has been an important aspect of the program.

- Letters notifying all local governments in States where agreements have been signed by ORS with State human rights agencies.

- Participation by ORS as an exhibitor at conventions of civil rights groups.

- News releases and fact sheets noting civil rights issues.

- Development of a network of contacts among officials, citizen groups, interest groups and others at both the State and local levels to help publicize civil rights information and answer inquiries.

We would not claim that all governments have been fully appraised of GRS nondiscrimination requirements and all individuals of their rights under the GRS Act. We would, however, maintain that given the enormity of the task and available resources, we have made a serious attempt to do so.

I have tried to describe some of the ways in which the Office of Revenue Sharing has sought to carry out its civil rights responsibilities. We are aware that there is need for improvement in some aspects of our compliance program. We have, for some time, been working to develop ways to strengthen our efforts. We have looked into the criticisms and advice offered by a wide range of sources: the reports of the United States Commission on Civil Rights; reports of and interviews with the General Accounting Office; National Science Foundation - sponsored studies; the reports of the National Clearinghouse on Revenue Sharing; the Urban League's review; hearings before this and other Congressional committees; contact with the Justice Department, Equal Employment Opportunity Commission and Federal grant agencies; conferences with and correspondence from civil rights groups; and comments received on proposed regulations. In addition to these outside sources, civil rights compliance was a subject considered last year by a Treasury Department management study team in a management report on ORS furnished to you. We are currently completing another internal study with the primary purpose of identifying further improvements in our compliance system. We will make this report available to the Subcommittee as soon as it is completed.

We are addressing a number of serious civil rights issues. We will undertake the operational improvements that I cited earlier. ORS will soon be getting some of the additional staff that it badly needs. In noting this, I do not mean to imply that we are going to be able to satisfy all the criticisms that have been raised about the revenue sharing civil rights effort. For example, there are some critics who would like to have ORS itself closely monitor the activities of all 39,000 recipient governments. This would take a huge, new compliance apparatus. It would mean a siginificant intrusion into the day-to-day operation of every State and local government in America.

One analyst has estimated that it would take 7,800 auditors to conduct an annual audit of every recipient. Whether a Congress which granted only five of the twenty-six additional ORS compliance positions requested by the President for Fiscal Year 1975 and eleven out of twenty-one positions requested for Fiscal Year 1976, would be willing to commit the resources that would be required to carry out such a program is open to question. It is our own view that the cooperative arrangements that I previous described will go a long way in accomplishing a similar result.

An issue closely related to whether a substantially greater Federal monitoring effort is needed is the question whether the nondiscrimination provisions of the revenue sharing statute should apply to all resources of a recipient jurisdiction. At the basis of this recommendation is the argument that all money, including shared revenues, is fungible and that effects of the uses of shared revenues may be diverse. While this argument is not unreasonable, it should be noted that money derived from other Federal programs also releases other resources at the State and local level for use at the discretion of the recipient.

It is clear that the Congress in enacting the State and Local Fiscal Assistance Act intended that its nondiscrimination provision apply only to programs or activities funded in whole or part with revenue sharing money. Where it was intended that indirect impact be accounted for, as in the case of the restriction against using revenue sharing to meet the matching requirements of other Federal programs, this was specifically stated in the statute. In Matthews vs. Massell a Federal Court said that another use limitation, that establishing local priority expenditure categories, did not apply to legitimately freed-up local funds. While making such a ruling, the court disallowed an accounting manipulation designed to circumvent the Act.

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In considering the issue of whether Section 122 should be extended to include all a recipient's resources, one should note that there has been no suggestion by any commentators that States and communities have been allocating their revenue sharing funds to activities with limited civil rights implications to avoid responding to the GRS nondiscrimination standards.

If the nondiscrimination provision of the revenue sharing act were to apply to all resources of a jurisdiction, Congress should make an explicit decision to do so in full awareness of the implications it has for the General Revenue Sharing program and the need for a large Federal compliance apparatus. To ignore the latter would make such a change a hollow gesture. Revenue sharing was designed to provide generalized no-strings Federal assistance to State and local governments. While a major concern was that the funds made available not go to support discriminatory activity the program was not enacted primarily as a civil rights initiative. There are Federal, State and local statutes and there are civil rights agencies at all levels of government whose main task is to eradicate discrimination.

Revenue sharing does further Federal civil rights efforts. The program contributes to the general civil rights goals of the Federal government by making Federal standards applicable to many additional jurisdictions and areas of governmental activity. While awareness of these national standards may largely be brought about through informational efforts rather than Federal mandate, it is conveyed just the same. Further, the civil rights efforts of other Federal agencies, such as the Equal Employment Opportunity Commission, and the efforts of State human rights agencies are being strengthened through exchanges of information with ORS and through the sanctions that are available if shared revenues are found to be involved in a program that they are investigating.

Finally, evidence appears in the NSF-supported study, "Civil Rights Under General Revenue Sharing" and the most recent report of the National Clearinghouse on Revenue Sharing that some governments have used their GRS entitlements to redress the impacts of past discrimination.

There are two other important ways, aside from its compliance efforts, in which the General Revenue Sharing program has benefited minorities and the underprivileged. We think that decisions about the use of GRS entitlements as well as concern that funds not support discriminatory activity have lead to greater involvement in community affairs at the State and local levels by civil rights organizations. About one-half of the revenue sharing civil rights compliance cases have been initiated

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by organizations. The publicity and public participation requirements of the Act have focused attention on revenue sharing spending decisions. They have enabled citizen groups to get a better perspective on the political processes in their communities and on where to "weigh-in" with their views.

Secondly, the Administration is confident that revenue sharing funds themselves are of much greater benefit to the poor and minorities than may appear at first glance. We know that low income States and urban centers receive larger than average per capita GRS allocations. States spend large portions of their GRS funds on education. Social concerns are addressed by some capital expenditures reported by recipient governments. Expenditures made in functional areas such as transportation, health, or environment often benefit the poor and the aged. Finally, the presence of revenue sharing money frees up State and local resources for programs to meet human needs.

In conclusion, the Administration feels that revenue sharing furthers the goal of assuring equal treatment for all our citizen: We think we have been innovative in our responses to the importai task that I have outlined. We need a larger civil rights staff at the Office of Revenue Sharing. We need to utilize that staff more effectively. We must continue our efforts to derive greater assistance from the cooperative arrangements we have with other agencies. There have been shortcoming during the first three years of the revenue sharing program, but we are confident that these will be overcome and that General Revenue Sharing can do a better job in attaining our National civil rights goals.

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FOR RELEASE ON DELIVERY

STATEMENT OF ROBERT A. GERARD
DEPUTY ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON
CONSUMER AND MONETARY AFFAIRS
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS
WEDNESDAY, OCTOBER 8, 1975 10:00 A.M.

Mr. Chairman and Members of this Distinguished Subcommittee: On behalf of the Department of the Treasury I am pleased to respond to the Chairman's request for a summary of Treasury's analytical work in connection with New York City's financial crisis.

In mid-March of this year Treasury officials were advised that a market no longer existed for the securities of New York City. In that connection, we were also informed that New York City had substantial cash needs, both for operating expenses and to redeem maturing short term debt and that these needs could not be met without additional borrowing. From that day forward a broad range of the Treasury's resources had been marshalled, with the objective of monitoring New York City's financial situation. That process continues today.

In the early days of our involvement an immediate objective was simply understanding the problem: obtaining the data necessary to determine for ourselves why the market for New York City had closed. In that connection we asked repeatedly for a current statement of financial condition: a statement of income and outgo broken down by categories and some form of balance sheet to enable us to understand the debt structure. Our requests were consistently greeted by city officials with earnest promises of assistance but to this day we have yet to receive such statements.

Of course, in hindsight, we can see that the absence of data to evaluate the problem was an important cause of the problem itself. If a borrower cannot show a potential lender he will have the funds to repay the loan, it makes it quite difficult for any lender to provide such funds.

A major concern in those early days was an apparent $641 million deficit in the projected budget for fiscal year 1975-76. If one could eliminate that deficit, it was argued, the crisis would be over and the market would reopen. No mention was ever made of the $2.5 billion cumulative deficit, nor was any mention made of the fact that the actual projected deficit for FY 75-76 turned out to be hundreds of millions higher.

Notwithstanding the absence of credible and consistent data we nevertheless were active participants in literally dozens of meetings with city officials, state officials and representatives of the financial community. As far as most participants in those meetings were concerned, there was a single purpose: to attempt to identify and implement the actions which had to be taken to restore New York City's credit. The necessary steps were identified in this process. The proposals which came out of those meetings are similar to some we have seen in recent weeks.

We in the Treasury made the judgment that the time had come to broaden our area of concern. We determined that it was also necessary to consider the possibility that reforms would not be implemented, and to understand the implications of that possibility.

A broad range of Treasury's resources were called into play:

-- We began to factor the situation into its evaluation of the government securities markets, and the money markets;

-- We took similar actions with respect to other financial markets, with particular emphasis on the municipal bond market and the equity markets for financial institutions;

-- We began to evaluate the international considerations, with the foreign exchange and eurodollar market receiving close scrutiny.

These efforts were not undertaken with great fanfare: command posts were not established; waves of new bureaucrats were not hired; massive reports were not commissioned. We do not operate that way.

Instead, a small group of professionals -- each highly expert in his particular field -- found that this concern was part of their regular activities.

Let me be clear. At no time did we believe default was inevitable. At no time did we lose sight of the fact that default should be avoided by any appropriate means. And at no time did we view default as a solution to the crisis. But from the start, we were cognizant of the possibility -- however remote -- that default might not be avoided. It was and is our absolute responsibility to be prepared in that event.

As the summer progressed, additional measures -- requiring different approaches -- were undertaken. We became aware of uncertainty regarding the financial condition of certain of New York State's agencies. We conducted an indepth financial analysis of this situation. We also surveyed the borrowing requirements of other state housing agencies.

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When we turned to financial conditions of other large cities, data again became a problem. My staff spent days in the library of a bond rating firm in New York, after ascertaining that no such information was available here in Washington.

In view of the presence of my colleagues, I will not dwell upon the banking system. As is apparent, that sector was covered in considerable detail.

In several stages, appropriate review was made of Federal assistance programs. As in all other areas, our objective was to develop the information necessary for our analysis, without broadening the inquiry unnecessarily and thus creating false concerns.

Mr. Chairman, let there be no question that we in the Treasury Department share with you a deep concern for the well-being of the people of New York and of the nation as a whole. Every senior Treasury official directly involved in this effort has close personal ties to our greatest city and, in a manner consistent with our official duties, we have reflected those ties in our attitudes and actions.

In my judgment, the work we have done has been commensurate with the circumstances as we have identified them. If the Subcommittee desires us to concentrate in additional area, or to conduct further studies, we shall, within the limits of our resources, be happy to comply.

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MEMORANDUM FOR THE PRESS: October 8, 1975

Attached are materials which help explain and illustrate the President's Proposal for Tax Cuts and Federal Spending Restraint. The materials include:

1. The White House Fact Sheet (October 6, 1975).

2. Treasury's Annexes to the Fact Sheet, covering:

   a) Tax Rate Schedules comparing present tax rates with the President's proposals in all tax brackets, for both single and married taxpayers.

   b) Six-point utilities package.

   c) Major 1975 individual tax reductions.

   d) Maximum levels of tax-free earned income for 1976 under the President's Tax Reduction proposal.

3. Eleven supplementary comparison tables.

4. Questions and Answers on the tax proposal.

WS-404

OCTOBER 6, 1975

Office of the White House Press Secretary

THE WHITE HOUSE

FACT SHEET

THE PRESIDENT'S PROPOSAL FOR TAX CUTS AND FEDERAL SPENDING RESTRAINT

President Ford is proposing that permanent large tax cuts be made possible for American taxpayers by Congress joining with him in limiting the growth of federal expenditures. The tax reductions proposed by the President total about $28 billion compared to 1974 law. This proposal is linked to the adoption by the Congress now of a spending ceiling of $395 billion for FY 1977. This represents a reduction of about $28 billion from projected levels for that year unless action to limit federal spending is taken.

The proposed tax cuts are divided approximately 75 percent for individuals and 25 percent for business. A family of four earning $14,000 a year would receive a reduction in their tax liability of $412 or 27 percent.

I. SUMMARY OF THE TAX CUT PROPOSAL

A. The individual tax reductions will be accomplished by:

- $8 billion in cuts to replace the temporary 1975 tax reductions.
- $4 billion in additional cuts required to keep personal withholding rates constant. (The 1975 cut was reflected in withholding over an eight-month period and, therefore, a $4 billion extra cut is provided to keep withholding constant.)
- $8.7 billion in further tax relief distributed throughout all income ranges.

B. The business tax reductions will continue the tax relief for small business provided by the 1975 Act, will make permanent the higher investment credit rate of 10 percent as an incentive for investment in equipment needed to increase productivity and to provide new jobs, will reduce the marginal rate on business income as a first step toward eliminating the existing tax bias against capital formation, and will provide special relief to utilities needed to reduce dependence on foreign energy sources.

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C. The recommended changes in the individual and business income tax structure, and their costs, as compared to 1974 law, are as follows:

	Individual Tax Cuts
Increase personal exemption from $750 to $1,000.	$10.1 billion
Replace $1,300 low income allowance and $2,000 maximum standard deduction with flat amount standard deduction of $2,500 for married couples ($1,800 for a single person)	$ 4.0 billion
Reduce tax rates	$ 6.6 billion
TOTAL INDIVIDUAL TAX CUTS	$20.7 billion
	Business Tax Cuts
Extension of 1975 corporate rate and surtax exemption changes	$ 1.7 billion
Permanent extension of investment credit increase (from 7-10; 4-10 for utilities)	$ 2.5 billion
2% corporate rate reduction (48-46%)	$ 2.2 billion
Utilities tax relief previously proposed (see Annex C)	$ 0.6 billion
TOTAL BUSINESS TAX CUTS	$ 7.0 billion
TOTAL TAX CUTS	$27.7 billion

The effects on individual taxpayers of the President's tax proposals are shown in the following tables:

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Tax Liabilities for Family with 2 Dependents, Filing Joint with Itemized Deductions of 16 Percent of Adjusted Gross Income (If standard deduction exceeds itemized deduction, family uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	98	0	0	98	0
7,000	402	186	60	342	126
10,000	886	709	485	401	224
15,000	1,732	1,612	1,325	407	287
20,000	2,710	2,590	2,280	430	310
25,000	3,820	3,700	3,370	450	330
30,000	5,084	4,964	4,648	436	316
40,000	8,114	7,994	7,664	450	330
50,000	11,690	11,570	11,180	510	390

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Tax Liabilities for Single Person with Itemized Deductions of 16 Percent of Adjusted Gross Income (If standard deduction exceeds itemized deduction, individual uses standard deduction.)

Adjusted gross income	Tax Liability 1972-74 law	1975 law	Proposed 1976 law	Reduction from 1972-74 law	1975 law
$ 5,000	$ 490	$ 404	$ 307	$ 183	$ 97
7,000	889	796	641	248	155
10,000	1,506	1,476	1,227	279	249
15,000	2,589	2,559	2,307	282	252
20,000	3,847	3.617	3,553	294	264
25,000	5,325	5,295	5,015	310	280
30,000	6,970	6,940	6,655	315	285
40,000	10,715	10,685	10,375	340	310
50,000	15,078	15,048	14,725	353	323

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II. FULLER DESCRIPTION OF PROPOSED TAX CUTS

A. Individual Tax Cuts

The proposed permanent restructuring would replace the temporary increased standard deduction and the $30 per taxpayer exemption credit provided by the 1975 Act. The changes assure that withholding will not be increased and that, in fact, there will be further tax reductions for the great majority of taxpayers. As compared to 1974 law, the President's proposal would:

-- Increase the personal exemption from $750 to $1,000.

-- Replace the present minimum standard deduction (low income allowance) of $1,300 and maximum standard deduction of $2,000 by a single standard deduction in a flat amount of $1,800 for a single taxpayer and $2,500 for a married couple ($1,250 for married person filing separately). This compares with the average standard deduction claimed in 1974 of $1,625 by married couples and $1,400 by single persons. (The 1975 Act made temporary changes in the standard deduction, which are described in Annex D.)

-- Provide rate reductions as shown in the tax rate schedules attached at Annexes A & B.

B. Business Tax Cuts

The President also proposes to:

-- Reduce the maximum corporate tax rate from 48 percent to 46 percent.

-- Continue the 1975 Act increase in the surtax exemption (which determines the amount taxable at rates below 48 percent) from $25,000 to $50,000 of taxable income.

-- Continue the 1975 Act reduction in the rate on the first $25,000 of taxable income from 22 percent to 20 percent (the second $25,000 of taxable income will be taxable at a 22 percent rate, with the balance of income taxed at a 46 percent rate).

-- Make permanent the 1975 Act increase in the investment credit from 7 percent (4 percent in the case of public utilities) to 10 percent.

-- Enact a six-point program to provide tax relief to electric utilities and to reduce dependency on foreign energy sources (see Annex C for full description).

more

III. BACKGROUND ON FEDERAL SPENDING

A. Unless action is taken to restrain federal outlays in FY 1977, spending can be expected to increase by around $53 billion in a single year. Budget outlays are approaching $370 billion in FY 1976. Without specific legislative action to limit spending, outlays in FY 1977 will reach $423 billion or more. The main elements of an increase of $53 billion are as follows:

	(Billions)
Interest on the public debt will rise as the size of the debt grows. If current interest rates are maintained, the increase will approach	9
Civilian and military salaries increase automatically unless the President and Congress agree on an alternative plan. Would add more than	+6
Retirement benefits for retired federal military and civilian personnel also rise automatically with the cost-of-living . .	+3
Social security and railroad retirement payments increase automatically based upon the cost-of-living index	+12
Medicare and Medicaid payments rise as costs increase and the number of eligible recipients go up	+5
Public assistance, food stamps, housing subsidies and related programs are tied to the formulae set in law or in existing contracts	+2
Major construction of wastewater treatment plants now underway will add nearly .	+2
Essential procurement and research and development of military hardware and maintenance of necessary military facilities will add over	+3
Increases for energy research and development and transportation programs and inclusion of Export-Import Bank in budget.	+4
Other likely net changes including effect of Congressional inaction on budget reduction proposals heretofore proposed by the President and the effect of probable Congressional initiatives	+7
TOTAL	53

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B. Decisions have not yet been made on which programs will be restrained or curtailed.

- Specific decisions will be made in the budget review process leading up to the President's January Budget Message to Congress.
- All departments and agencies will be called upon to moderate program growth, expenditures, and Federal personnel levels.

C. The President has called upon Congress to join with him in making the tax reductions possible by placing a limit of $395 billion on FY 1977 expenditures now.

- A $395 billion ceiling is $25 billion above the currently estimated spending level this fiscal year and $28 billion below the level now projected for FY 1977.

D. Based upon current estimates that FY 1976 spending may approach $370 billion, the FY 1976 budget deficit would be about $70 billion. With the President's proposals, the FY 1977 deficit is estimated in the range of $40-44 billion.

# # # # #

ANNEX A

Tax Rate Schedule for President's
October 6, 1975 Tax Reduction Proposals
(Married Taxpayers Filing Jointly)

Taxable income bracket		Present rates (percent)	Proposed rates (percent)
$ 0	$1,000	14	12
1,000	2,000	15	14
2,000	3,000	16	15
3,000	4,000	17	15
4,000	6,000	19	16
6,000	8,000	19	17
8,000	10,000	22	21
10,000	12,000	22	22
12,000	16,000	25	25
16,000	20,000	28	29 1/
20,000	24,000	32	34 1/
24,000	28,000	36	36
28,000	32,000	39	39
32,000	36,000	42	42
36,000	40,000	45	45
40,000	44,000	48	48
44,000	52,000	50	50
52,000	64,000	53	53
64,000	76,000	55	55
76,000	88,000	58	58
88,000	100,000	60	60
100,000	120,000	62	62
120,000	140,000	64	64
140,000	160,000	66	66
160,000	180,000	68	68
180,000	200,000	69	69
200,000	--	70	70

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1/ While two rates are increased in the higher brackets, taxpayers with income taxed in those brackets will benefit from rate reductions in the lower brackets so that on balance the changes in rates reduce taxes even for those affected by the increased rates.

Tax Rate Schedule for President's October 6, 1975 Tax Reduction Proposals (Single Taxpayers)

Taxable income bracket		Present rates (percent)	Proposed rates (percent)
$ 0	$ 500	14	12
500	1,000	15	13
1,000	1,500	16	15
1,500	2,000	17	15
2,000	3,000	19	16
3,000	4,000	19	17
4,000	5,000	21	18
5,000	6,000	21	19
6,000	8,000	24	21
8,000	10,000	25	24
10,000	12,000	27	27
12,000	14,000	29	29
14,000	16,000	31	31
16,000	18,000	34	34
18,000	20,000	36	36
20,000	22,000	38	38
22,000	26,000	40	40
26,000	32,000	45	45
32,000	38,000	50	50
38,000	44,000	55	55
44,000	50,000	60	60
50,000	60,000	62	62
60,000	70,000	64	64
70,000	80,000	66	66
80,000	90,000	68	68
90,000	100,000	69	69
100,000	--	70	70

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SIX-POINT UTILITIES PACKAGE

-- Increase the investment tax credit permanently to 12 percent on all electric utility property except generating facilities fueled by petroleum products. No change of the percent-of-tax limitation is involved. The increase in the credit is allowable only if construction work in progress is included in the utility's rate base and the benefit of the increase is "normalized" for ratemaking purposes. "Normalized" in this sense means reflecting the tax benefit for ratemaking purposes pro rata over the life of the asset which generates the benefit instead of recognizing the entire tax benefit in the year the utility's taxes are actually reduced. In the absence of normalization, the entire tax benefit would flow through immediately in the form of reduced utility rates for consumers, and no real economic benefit would result for the utility.

-- Give electric utilities full, immediate investment tax credit on progress payments for construction of property that takes two years or more to build, except generating facilities fueled by petroleum products, without regard to the five-year phase-in required by the Tax Reduction Act of 1975. This new provision applies only if the regulatory agency includes construction work in progress in the utility's rate base for ratemaking purposes.

-- Extend to January 1, 1981, the period during which pollution control facilities installed in a pre-1969 plant or facility may qualify for rapid five-year straight-line amortization in lieu of normal depreciation and the investment credit.

-- Permit rapid five-year amortization of the costs of either converting a generating facility fueled by petroleum products into a facility not fueled by petroleum products or replacing a petroleum-fueled facility with one not fueled by petroleum. This amortization is in lieu of normal

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depreciation and the investment credit, and is available only if (i) its benefits are "normalized" for ratemaking purposes, and (ii) construction work in progress is included in the utility's rate base for ratemaking purposes.

-- Permit a utility to elect to begin depreciation, during the construction period, of accumulated construction progress expenditures, generally the same expenditures as those which qualify for the investment credit construction progress payments under the Tax Reduction Act of 1975. Any depreciation taken during the construction period will reduce the depreciation deductions available after the property is completed. This early depreciation will be available only if the ratemaking commission includes construction work in progress in the utility's rate base and "normalizes" the tax benefits for ratemaking purposes. Construction of generating facilities which will be fueled by petroleum products will not qualify for such depreciation.

-- Permit a shareholder of a regulated public electric utility to postpone tax on dividends paid by the utility on its common stock by electing to take additional common stock of the utility in lieu of cash dividends. The receipt of the stock dividend will not be taxed. The amount of the dividend will be taxed as ordinary income when the shareholder sells the dividend stock and the amount of capital gain realized on the sale will be decreased (or the amount of capital loss increased) accordingly. Dividend stock is deemed sold before other stock.

FY 1976 COST = $600 million

MAJOR 1975 INDIVIDUAL TAX REDUCTIONS

The Tax Reduction Act of 1975 contains three temporary general individual tax cut provisions affecting most taxpayers. The first was the temporary one-shot rebate of a portion of 1974 tax liabilities, which was implemented through special rebate checks or larger refund checks last spring (cost: $8.1 billion). Two other temporary structural changes enacted in 1975 may be summarized as follows:

<u>Standard deduction liberalization</u>

-- minimum standard deduction (low income allowance) increased from $1,300 per return ($650 for married persons filing separately) to $1,900 for a joint return or surviving spouse, $1,600 for single persons, and $950 for married persons filing separately,

-- maximum standard deduction increased from 15 percent of AGI (with a maximum of $2,000 or $1,000 for a married person filing separately) to 16 percent of AGI (with a maximum of $2,600 for a joint return or surviving spouse, $2,300 for a single person, and $1,300 for married persons filing separately,

-- effective for one year (generally 1975 calendar year)

COST: $2.5 billion

Personal exemption tax credit

-- new $30 per exemption tax credit (except blind and aged exemptions) in addition to present law personal exemptions

-- effective for one year (generally 1975 calendar year)

COST: $5.3 billion

The approximate $8 billion of tax reductions effected by the standard deduction liberalization and the personal exemption tax cut were reflected in withholding tax reduction over a eight-month period. Thus, the amount of tax cuts necessary to annualize the 1975 Act withholding tax reductions over a 12-month period would be approximately $12 billion.

Maximum Levels of Tax-Free Income for 1976
Under the President's Tax Reduction Proposal

(rounded to nearest $10)

Filing status	Maximum tax-free income 1/		Poverty income levels 2/	
	1975	1976	1975	1976
Single				
no dependents	2,560	2,800	2,790	2,970
Married, joint return				
no dependents	3,830	4,500	3,610	3,840
1 dependent	4,790	5,500	4,300	4,570
2 dependents	5,760	6,500	5,500	5,850
3 dependents	6,720	7,500	6,490	6,900
4 dependents	7,670	8,500	7,300	7,770
Single, over 65				
no dependents	3,310	3,800	2,580	2,740
Married, joint return				
both over 65				
no dependents	5,330	6,500	3,260	3,460

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October 6, 1975

1/ For taxpayers not eligible for the earned income credit.

2/ Underlying Consumer Price Index assumption: for 1975, 161.2; for 1976, 171.5.

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Supplementary Tables

1. Income Distribution of President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law

2. Income Distribution of the Components of the President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law

3. Comparison of Individual Tax Cuts in President's Proposal and in Tax Reduction Act of 1975

4. Income Distribution of President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1975 Law

5. Income Distribution of the Components of the Tax Reduction Act of 1975 at 1975 Levels of Income as Compared to 1972-74 Law

6. Tax Liabilities for Family with No Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income

7. Tax Liabilities for Family with 1 Dependent, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income

8. Tax Liabilities for Family with 2 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income

9. Tax Liabilities for Family with 4 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income

10. Tax Liabilities for Single Person Without Dependents, with Itemized Deductions of 16 Percent of Adjusted Gross Income

11. A Comparison of the Liability Effects of the Tax Reduction Act of 1975 and the President's Tax Cut Proposal on Business Income

Income Distribution of President's Tax Reduction Proposal
at 1975 Levels of Income as Compared to 1972-74 Law

(billions of dollars)

Adjusted gross income class	Tax liability based on 1972-74 law	Proposed 1976 tax liability	Tax reduction	Percentage distribution of tax reduction 1/	Percentage reduction in tax liability 1/
0 - $5,000	2.0	0.8	1.2	5.9	61.2
$5,000 - 10,000	14.1	9.1	5.0	24.0	35.3
10,000 - 15,000	23.1	17.6	5.5	26.6	23.8
15,000 - 20,000	23.7	19.5	4.2	20.2	17.7
20,000 - 30,000	28.0	24.7	3.3	16.0	11.8
30,000 - 50,000	16.9	15.9	1.0	5.0	6.1
50,000 - 100,000	12.1	11.7	0.4	1.8	3.2
100,000 +	9.4	9.4	0.1	0.4	1.0
Total	129.4	108.7	20.7	100	16.0

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October 8, 1975

1/ Based on unrounded liability figures.

Note: Detail may not add to totals due to rounding.

Table 2

Income Distribution of the Components of the President's Tax Reduction Proposal at 1975 Levels of Income as Compared to 1972-74 Law

(millions of dollars)

Adjusted Gross Income Class	Components			Total
	$1,000 Personal Exemption	Standard Deduction Change	Rate Reduction	
$ 0 - $5,000	515	608	102	1,225
5,000 - 10,000	1,908	1,961	1,098	4,967
10,000 - 15,000	2,548	925	2,040	5,513
15,000 - 20,000	2,056	342	1,788	4,186
20,000 - 30,000	1,867	154	1,287	3,308
30,000 - 50,000	802	31	204	1,037
50,000 - 100,000	330	5	48	383
100,000 +	80	1	10	91
TOTAL	10,105	4,026	6,580	20,711

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October 7, 1975

Note: Detail may not add to totals due to rounding.

Table 3

Comparison of Individual Tax Cuts in President's Proposal and in Tax Reduction Act of 1975

	$ billion
President's Proposal	
Standard deduction	4.0
$1,000 personal exemption	10.1
Rate changes	6.6
TOTAL	20.7
Tax Reduction Act of 1975	
Standard deduction	2.5
$30 personal exemption credit	5.3
Earned income credit	1.5 1/
Housing credit	0.6
TOTAL	10.0

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October 6, 1975

1/ Includes the refundable portion of the earned income credit.

Table 4

Income Distribution of President's Tax Reduction Proposal
at 1975 Levels of Income as Compared to 1975 law

Adjusted gross income class	Tax liability based on 1975 law 1/	Proposed 1976 tax liability	Tax reduction	Percentage distribution of tax reduction 2/	Percentage reduction in tax liability 2/
	(....... billions of dollars		......)	(............percent	...........)
\$ 0 - \$5,000	1.5	0.8	0.7	5.5	45.6
5,000 - 10,000	12.0	9.1	2.9	24.2	24.0
10,000 - 15,000	20.7	17.6	3.1	26.3	15.1
15,000 - 20,000	21.9	19.5	2.4	20.4	11.0
20,000 - 30,000	26.6	24.7	1.9	16.0	7.1
30,000 - 50,000	16.5	15.9	0.6	4.9	3.5
50,000 - 100,000	11.9	11.7	0.2	2.1	2.1
100,000 +	9.4	9.4	0.1	0.5	0.7
TOTAL	120.6	108.7	11.8	100.0	9.1

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October 6, 1975

1/ Includes effect of changes in the standard deduction, the \$30 exemption credit; the home purchase credit, and the nonrefundable portion of the earned income credit. The refundable portion of the earned income credit is treated as an expenditure item.

2/ Based on unrounded liability figures.

* Less than \$50 million.

NOTE: Detail may not add to totals due to rounding. Minor differences may arise in totals appearing on other tables due to the different methods used in estimating these income distributions.

Table 5

Income Distribution of the Components of the Tax Reduction Act of 1975
at 1975 Levels of Income as Compared to 1972-74 Law

(millions of dollars)

Adjusted Gross Income Class	Tax Reductions: Standard Deduction Change	Tax Reductions: $30 Credit	Tax Reductions: Earned Income Credit	Tax Reductions: Home Purchase Credit	Total Tax Reduction	Refundable Portion of Earned Income Credit (Outlays)	Tax Reduction Plus Outlays
$ 0-$5,000	502	298	29	6	835	890	1,725
5,000-10,000	1,062	1,190	250	53	2,555	223	2,778
10,000-15,000	374	1,505	0	144	2,023	-	2,023
15,000-20,000	527	1,079	0	156	1,762	-	1,762
20,000-30,000	240	824	0	176	1,240	-	1,240
30,000-50,000	46	257	0	68	371	-	371
50,000-100,000	8	75	0	19	102	-	102
100,000 +	1	15	0	4	20	-	20
TOTAL	2,760	5,243	279	625	8,908	1,113	10,021

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Note: Detail may not add to totals due to rounding.

Table 6

Tax Liabilities for Family with No Dependents, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$ 322	$ 170	$ 60	$ 262	$ 110
7,000	658	492	335	323	157
10,000	1,171	1,054	800	371	254
15,000	2,062	2,002	1,750	312	252
20,000	3,085	3,025	2,780	305	245
25,000	4,240	4,180	3,950	290	230
30,000	5,564	5,504	5,328	236	176
40,000	8,702	8,642	8,444	258	198
50,000	12,380	12,320	12,080	300	240

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit.

Table 7

Tax Liabilities for Family with 1 Dependent, Filing Jointly with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$ 207	$ 73	0	$ 207	$ 73
7,000	526	386	190	336	196
10,000	1,028	938	640	388	298
15,000	1,897	1,807	1,535	362	272
20,000	2,897	2,807	2,530	367	277
25,000	4,030	3,940	3,660	370	280
30,000	5,324	5,234	4,988	336	246
40,000	8,406	8,316	8,054	352	262
50,000	12,028	11,938	11,630	398	308

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1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If eligible for the EIC under 1975 law, taxpayers with earned income of $5,000 would have no tax liability and would receive $227 in direct payments from the Government. Taxpayers with earned income of $7,000 would have tax liabilities of $286.

Table 8

Tax Liabilities for Family with 2 Dependents,
Filing Joint Return with Itemized Deductions of
16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$98	$0	$0	$98	$0
7,000	402	186	60	342	126
10,000	886	709	485	401	224
15,000	1,732	1,612	1,325	407	387
20,000	2,710	2,590	2,280	430	310
25,000	3,820	3,700	3,370	450	330
30,000	5,084	4,964	4,648	436	316
40,000	8,114	7,994	7,664	450	330
50,000	11,690	11,570	11,180	510	390

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If eligible for the EIC under 1975 law, taxpayers with earned income of $5,000 would have no tax liability and would receive $300 in direct payments from the Government. Taxpayers with income of $7,000 would have a tax liability of $86.

Table 9

Tax Liabilities for Family with 4 Dependents, Filing Joint Return with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability			Proposed Reduction from	
	1972-74 law	1975 law 2/	Proposed 1976 law	1972-74 law	1975 law 2/
$ 5,000	$ 0	$ 0	$ 0	$ 0	$ 0
7,000	170	0	0	$ 170	0
10,000	603	372	190	413	182
15,000	1,402	1,222	965	437	257
20,000	2,335	2,155	1,816	519	339
25,000	3,400	3,220	2,830	570	390
30,000	4,604	4,424	4,008	596	416
40,000	7,529	7,349	6,896	633	453
50,000	11,015	10,835	10,280	735	555

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit. Also assumes that taxpayer is not eligible for the Earned Income Credit. Taxpayers maintaining a home in the United States for a dependent child are eligible for the Earned Income Credit (EIC) if they earn less than $8,000. If eligible for the EIC under 1975 law, taxpayers with earned income of $5,000 would have no tax liability and would receive $300 in direct payments from the Government. Taxpayers with income of $7,000 would have no tax liability and would receive direct payments of $100.

Table 10

Tax Liabilities for Single Person Without Dependents, with Itemized Deductions of 16 Percent of Adjusted Gross Income 1/

Adjusted gross income	Tax Liability: 1972-74 law	Tax Liability: 1975 law 2/	Tax Liability: Proposed 1976 law	Proposed Reduction from: 1972-74 law	Proposed Reduction from: 1975 law 2/
$ 5,000	$ 490	$ 404	$ 307	$ 183	$ 97
7,000	889	796	641	248	155
10,000	1,506	1,476	1,227	279	249
15,000	2,589	2,559	2,307	282	252
20,000	3,847	3,817	3,553	294	264
25,000	5,325	5,295	5,015	310	280
30,000	6,970	6,940	6,655	315	285
40,000	10,715	10,685	10,375	340	310
50,000	15,078	15,048	14,725	353	323

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ If standard deduction exceeds itemized deduction, family uses standard deduction.

2/ Assumes that taxpayer is not eligible for the Home Purchase Credit.

Table 11

A Comparison of the Liability Effects
of the Tax Reduction Act of 1975 and the
President's Tax Cut Proposal on Business Income 1/
(1975 Levels of Income)

	Tax Reduction Act of 1975	President's Tax Cut Proposal	Change
	(................$ billions	....	..)
Increase the corporate surtax exemption to $50,000 with a 2 percentage point reduction in the normal tax	-1.5	-1.5	--
Increase the rate of the investment tax credit to 10%	-3.3	-3.3	--
2 percentage point reduction in the corporate surtax	--	-2.2	-2.2
Utilities tax relief previously proposed	--	-0.6	-0.6
WIN credit	*	--	*
TOTAL	-4.8	-7.6	-2.8

Office of the Secretary of the Treasury
Office of Tax Analysis

October 6, 1975

1/ These figures show the difference between 1972-74 law liability and the two tax programs as applied to calendar 1975 income.

Note: Detail may not add to totals due to rounding.

* Less than $50 million.

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QUESTIONS AND ANSWERS

ON

PERSONAL & CORPORATE TAX CUTS

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PERSONAL TAX CUTS

STANDARD DEDUCTION

Question - What will be the principal differences between those who use the standard deduction and those who itemize?

Answer - Both groups of taxpayers will benefit by the increase in the amount of personal exemption and the general lowering of tax rates. In addition, those households claiming the standard deduction will be allowed an increased deduction in most cases. There are also some itemizers who will benefit by the increase in the size of the standard deduction if their itemized deductions are greater than the standard deduction under the old law but less than the standard deduction under the current proposal.

Question - The President's proposal replaces the low income allowance and the percentage standard deduction with a flat deduction of $2,500 for joint returns and $1,800 for single individuals. How many taxpayers switch to itemizing and how many to the new flat deduction?

Answer - Compared to 1974 law:

200,000 returns switch to itemizing and 10.5 million switch to the standard deduction.

Net there will be 10.3 million more returns using the standard deductions.

Compared to 1975 law:

900,000 returns switch to itemizing, and 3.9 million returns switch to the standard deduction.

Net there will be three million more returns using the standard deduction. 60 million tax returns currently utilize the low income allowance or the standard deduction.

Question - Will a greater proportion of taxpayers be expected to use the standard deduction, rather than itemize deductions, under these proposals?

Answer - Yes. Currently, under 1975 law, 31.3 percent of tax returns must itemize their deductions. Under these proposals the proportion can be expected to decrease to 27.8 percent.

WITHHOLDING

Question - Why would withholding rates rise on 1 January 1976 if the 1975 temporary personal income tax reductions were merely extended?

Answer - The $8 billion in temporary reductions was with reference to 1975 liabilities. The entire annual effect had to be reflected in only 8 months of 1975 following enactment of the 1975 Act. The same $8 billion of relief extended over 1976 would require higher withholding rates than those in effect during the last 8 months of 1975.

Question - Would withholding rates be reduced on January 1, 1976 under these proposals?

Answer - For most taxpayers, withholding rates will be reduced to reflect the additional $8.6 billion personal tax cut beyond extending and annualizing the 1975 cuts.

Question - How much of the proposed tax reduction merely assures that withholding rates will not be higher in 1976 than in the last 8 months of 1975?

Answer - $4 billion. Added to the continuation of the 1975 Act tax relief, the total reduction in 1976 liabilities that assures that personal disposable incomes will not be lower in 1976 than in 1975 is $12 billion.

DOES ANYONE PAY MORE TAXES

Question - The President's proposal increases some marginal tax rates. Does this mean that some families will have a tax increase?

Answer - The marginal tax rate changes interact with the other features of the package--the increased personal exemption and standard deduction--so that all taxpayers will have their tax liabilities decreased in comparison with the 1974 law and practically every taxpayer will have his tax liability reduced in comparison with 1975 law.

SIMPLIFICATION

Question - Will this proposal simplify tax returns?

Answer - Yes, in three ways:

First, more taxpayers will be able to use the standard deduction, rather than itemize their deductions. Presently, under 1975 law, 27 million returns are expected to itemize, while under this proposal, only 24 million will have to itemize.

Second, the standard deduction and personal exemptions are much simpler than under 1975 law. This will also help make the withholding tables easier.

Third, several million returns which owe tax under 1975 law will owe no tax under this proposal. This is the ultimate simplification.

TAX-EXEMPT INCOME LEVELS

Question - For families of different sizes, what are the levels of tax-exempt income implied by the President's proposal?

Answer -

Type of taxpayer	Proposed Maximum Tax-free Earned Income for Tax-payers Not Eligible for Earned Income Credit (Rounded to nearest $100
Single, no dependents	$2,800
Married, joint return	
No dependents	$4,500
1 dependent	$5,500
2 dependents	$6,500
3 dependents	$7,500
4 dependents	$8,500
Single over 65 no dependents	$3,800
Married, joint returns, both over 65	$6,500

Question - Does the proposal increase the tax exempt levels of income for singles and married couples?

Answer -

	Exempt Level of Income		
	1974	1975	1976
Single	$2,050	$2,560	$2,800
Married Couple, no children	2,800	3,830	4,500
Married Couple, two children	4,300	5,760	6,500

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Question - Will any families with incomes at or below the poverty level have any tax liabilities under the President's proposals?

Answer - No. Given the probable increases in the Consumer Price Index no families with incomes below poverty levels will have any Federal income tax liability.

EARNED INCOME CREDIT

Question - Does the proposal include extension of the 10 percent earned income credit?

Answer - No recommendation is made with respect to the earned income credit. This is an item the Congress should consider when it reviews outlay programs in light of these tax proposals.

Question - What would be the level of tax-free earned income for taxpayers eligible for the earned income credit, assuming that the earned income credit is retained in its current form?

Answer: Married, joint return.

1 dependent	$6,625
2 dependents	$7,182
3 dependents	$7,727
4 dependents	$8,500
5 dependents	$9,500

MISCELLANEOUS

Question - The Tax Reduction Act of 1975 included a $50 payment to all social security and supplemental income security beneficiaries. Is a similar provision being proposed for 1976?

Answer - No. Social Security benefits will be increased in 1976 to reflect increases in the Consumer Price Index. Moreover, Social Security beneficiaries with taxable income will have lower taxes from the increase in the personal exemption.

Question - Since the $30 tax credit per taxpayer and dependent in the 1975 Act was intended primarily to extend tax relief to taxpayers who itemize deductions, how do the present proposals continue that tax relief?

Answer - Itemizers will benefit from the higher personal exemption. Raising the personal exemption is an alternative to continuing the $30 tax credit. Itemizers will also benefit by rate reductions.

uestion - Will the additional personal exemptions for taxpayers who are over 65 or who are blind also be increased to $1,000?

Answer - Yes.

Question - Does the proposal help married people more than single?

Answer - The proposed single rate schedule follows the pattern adopted by Congress in 1969 which insures that no single taxpayer will pay over 20 percent more than a married couple with the same taxable income.

(Before 1969 the difference could be as large as 40 percent.)

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CORPORATE TAX CUTS

Question - Why are some personal income tax bracket rates increased?

Answer - The decision to raise a few bracket rates was made in the light of all other changes proposed and is intended to assure equitable distribution of tax relief. Under the changes proposed, no taxpayer will pay a higher total tax.

Qeustion - Does the proposal include extension of the 5 percent tax credit for purchase of new homes?

Answer - No.

CORPORATE TAX RELIEF

Question - Does the two percentage point reduction in the corporate tax rate apply across the board or simply to the 48 percent top rate?

Answer - The two percentage point reduction applies to the 48 percent rate on earnings in excess of $50,000. The provisions of the Tax Reduction Act of 1975 that reduced the rate from 22 percent to 20 percent of the first $25,000 of corporate profits, and from 48 percent to 22 percent or profits between 25,000 and 50,000 will be continued.

Background

Earnings Brackets	1974 Rates	1975 Rates	Proposed Rates
0 - 25,000	22	20	20
25,000 - 50,000	48+	22	22
50,000 and more	48+	48+	46++

+Normal rate = 22
Surtax rate = 26
48

++Normal rate = 22
Surtax rate = 24
46

INVESTMENT TAX CREDIT

Question - What does the tax cut provide for the investment tax credit?

Answer - The Tax Reduction Act of 1975 increased the investment tax credit to 10 percent for both 1975 and 1976. This new tax cut would make permanent the increase to 10 percent for all years after 1976.

Question - Will the temporary increase in the used property dollar limit that qualifies for the investment tax credit be changed?

Answer - No. The limit was increased by the Tax Reduction Act of 1975 to $100,000 for calendar years 1975 and 1976 (and fiscal years 1975-1976 and 1976-1977) but will revert to $50,000 after that time.

Question - Will the extension of the investment tax credit affect business tax liabilities for 1976?

Answer - No. The investment tax credit was scheduled to continue through 1976 under the Tax Reduction Act of 1975. The President's proposals which recommends that the 10 percent investment tax credit be made permanent will affect business tax liabilities after 1976. If the 10 percent investment tax credit is made permanent, there will be no artificial boom (and subsequent bust) in investment in order to beat the expiration rate.

Question - Does the proposal include extension of the additional 1 percent investment tax credit where that additional credit is used in conjunction with an Employee Stock Ownership Plan (ESOP)?

Answer - No.

PUBLIC UTILITIES

Question - How does the proposal to make the 10 percent investment tax credit permanent relate to the proposals regarding electric utilities that the Administration presented to the Ways and Means Committee on July 8, 1975?

Answer - The Administration proposals for electric utilities are included in these proposals. The electric utility proposals include a 12 percent investment tax credit for investments in qualified electric utility property.

Question - What would the proposals for utilities do to help reduce dependence on foreign oil?

Answer - Several incentives are provided to encourage investment in generating facilities not fueled by petroleum and to encourage conversion of present petroleum-fueled facilities to other energy sources. Investments in petroleum-fueled facilities would be ineligible for the 12 percent tax credit rate. Rapid 5-year amortization is allowed in lieu of normal depreciation and the investment tax credit for investments to convert or replace petroleum-fueled facilities in favor of facilities not fueled by petroleum.

Question - How would these proposals affect the reduced limitations on investment tax credit for public utilities which were in the Reduction Act of 1975?

Answer - The same schedule of percent-of-income limitations would apply as in the 1975 Act. The higher tax credit may still not exceed 100 percent of income in 1975-76. This percentage is reduced by 10 percent each year until it reverts permanently to the 50 percent level in 1981.

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CORPORATE SURTAX EXEMPTION

Question - How will the surtax exemption be affected?

Answer - The surtax exemption revisions made in the Tax Reduction Act of 1975 will become permanent. The rates are 20 percent on the first $25,000 of taxable income and 22 percent on the next $25,000. The decrease in the corporate surtax rates means that all income above $50,000 will be taxed at 46 percent--but this change does not effect the surtax exemption per se.

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INTEGRATION

Question - How does this proposal relate to the proposal for integration of the personal and corporate income taxes made on July 31, 1975?

Answer - The proposal for integration raised many fundamental and complex questions of tax policy which the Congress has indicated, appropriately, that it wishes to study over a considerable period of time. The integration proposal has not been incorporated into this proposal for immediate action. The Administration still supports the basic concept of integration.

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE SENATE COMMITTEE ON
BANKING, HOUSING AND URBAN AFFAIRS
THURSDAY, OCTOBER 9 AT 9:30 A.M. EDT

NEW YORK CITY'S FINANCIAL SITUATION

Mr. Chairman and Members of this Distinguished Committee:

Today marks an important juncture in Congressional consideration of the financial situation in New York City. Today we move from study, investigation and evaluation into the infinitely more demanding process of considering specific legislative responses. And as we make this transition, it becomes all the more important that the issues be dealt with in the serious and objective manner they deserve. Measured tones and deliberate analysis are imperatives. I have noted that there are two risks presented by a default: the financial and the psychological. I have often expressed the view that the financial risk can be mitigated. But at the same time, I have been equally candid about our inability to measure the psychological impact, and about our concerns that dire predicitions and vigorous rhetoric may compound whatever psychological risks do in fact exist. It is our joint responsibility to see to it that these concerns are minimized.

The proponents of the legislation pending before this Committee believe that a major program of Federal financial assistance is warranted by the circumstances. I cannot agree. What is warranted, indeed required, is a comprehensive program of fiscal and financial reform in order to return New York City to the capital markets. There is a Federal role in this process, but it is not the role envisioned by the legislation before us.

Before turning to the program of reform, let me summarize for the Committee the current situation in New York City and New York State.

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First, as a consequence of the events of the past month, the credit of New York State and its agencies has--rightly or wrongly--become intertwined with that of New York City. The State's bond rating has been reduced and the rating on certain of its notes withdrawn. These actions are not based primarily on concern with the fundamental finances of the State. Instead, they reflect the realities of the marketplace: investors currently are unwilling to purchase New York securities in the present atmosphere.

Second, potential inadequacies in the financial structure of the New York State Housing Finance Agency have come to light. The financial community has acted most responsibly in analyzing the finances of this Agency and in presenting a proposal to the legislature designed to cure some of these difficulties. I believe it is important that this proposal be acted upon promptly.

Building a Bridge to the Capital Markets

All levels of government, and the private sector as well, share the responsibility for developing a workable program that will restore New York City's access, and that of the State as well, to the capital markets. What must be done is to build a solid bridge, span by span, over which New York City can return to the private capital markets. In my view, such a program should involve the following elements.

-- First, and foremost, New York City must adopt a credible balanced budget plan which provides for the prompt elimination of budget deficits.

The institutional framework is now in place, but the Emergency Financial Control Board and the new Deputy Mayor must now operate in concert, devoting all of their resources to implement the fiscal policies necessary to return the City to the market. Substantial additional expenditure cuts are required. Operating expenses must be eliminated from the capital budget. Employee benefit programs must be reviewed. And capital spending must be brought under control. These measures must be accompanied by a continued re-alignment of the City's management to insure that the tough decisions which have to be made will continue to be made. Until investors are convinced that New York City's management is in control of the City's financial future, there can be no market.

-- Second, during the period of transition to balanced budget operations, the state should provide New York City with a temporary source of additional revenues, to avoid the accumulation of further deficits.

Such assistance should be provided by an emergency and temporary one or two year tax, perhaps an increase in the state sales tax. When New York City's budget has been restored to a sound fiscal basis, these funds can be repaid by the City over time through the state appropriation process.

-- Third, the financial and investment community must also play an important role.

Irrespective of what conclusions one may reach about the potential impact of a larger financial crisis on our markets and financial institutions, there is no question that it is in the best interests of all concerned to avoid a potential problem. If the City and State take the actions outlined above, if operating and capital expenditures are drastically reduced, and if pervasive control is exercised over the fiscal and financial affairs of local governments and agencies within the State, then it will be in the financial community's own self-interest to help provide the requisite credit to protect investments made to date and to insure healthy markets in the future.

It may be that further commitments from the financial community and from investors may not be necessary. But if they are, certain actions may be appropriate.

Within the context of an orderly proceeding for the restructing of New York City's debt, holders of short term securities may, if necessary, be asked to extend maturities for a short period--perhaps 2 to 4 years.

In addition, again only if necessary, the City's bondholders may be asked to agree to a moratorium on payments of interest and perhaps principal for a short period of time.

Once the threshold of budgetary control has been crossed, these actions can provide the bridge to return New York City to the capital markets. But any comprehensive program of reform must deal with longer range concerns as well. We in the Federal Government have a clear responsibility with respect to this part of the process.

-- As a fourth part of the program, the Federal Government must accelerate a comprehensive review of Federal, state and local relationships. To put it bluntly, we must determine whether the priorities, practices and procedures of the past are consistent with the needs of the last quarter of the twentieth century.

Specifically, in the area of assistance to the disadvantaged, we should review once again our administrative machinery and make whatever changes are necessary to provide state and local governments the full benefits they are entitled to under existing law.

But a comprehensive response requires more action as well. If we determine that large cities and populous states are unfairly disadvantaged under existing formulae or programs, we should consider corrective legislation, if necessary, to remedy whatever imbalances exist.

I have often said that assisting the poor is a legitimate, indeed a fundamental, responsibility of a compassionate democratic society. But if we allow our assistance programs to lose the support of the majority of our citizens, our ability to provide assistance may be seriously impaired.

-- Fifth, we must propose structural improvements in the municipal bond market.

In proposing these changes, we will not have lost sight of the fact that even in these unsettled times the municipal market has served state and local government well.

During August alone, for example, four states and 225 municipalities raised nearly $2.6 billion in long term debt. And contrary to widely held opinion, such funds were raised at a cost not disproportionate to historical levels.

Traditionally, yields on tax-exempt securities have been, on the average, 30 percent lower than taxable yields. Yield spreads will vary according to quality, maturity, call protection, monetary conditions and similar factors. Moreover, yields will also vary within rating catergories. For example, largely because of the substantial volume of debt outstanding, yields on New York City securities were significant higher than yields on comparably rated securities of other issuers. It is noteworthy that in September, the spread between prime municipals and comparable quality utility issuers was squarely on the 30 percent figure: That is 6.9 percent for municipals versus 9.9 percent for utilities.

While the market has performed well, improvements can be made. In recent years an inbalance between supply and demand has developed. Tax-exempt borrowing is at unprecedented levels: $40 billion of bond and notes in the first eight months of this year alone. But the growth in demand--especially from institutions--has not kept pace. Casualty companies, always large buyers, have had their need for tax-exempt income reduced. And commercial banks, traditionally the largest purchasers of tax-exempts, have cut back their participation substantially, reflecting other sources of tax shelter such as loan losses, leasing activities, and foreign tax credits. In 1969, commercial banks were net purchasers of municipals in an amount equal to 97 percent of new issue volume. For the first six months of this year, their net purchases dropped to 12 percent of new issue volume.

In addition, also as a consequence of these specialized sources of demand, yields in the tax-exempt market tend to rise disproportionally during periods of tight money as banks are forced to commit their limited credit resources to their commerical customers.

Accordingly, to broaden the market, and to effect a reduction in the volume of tax-exempt debt, State and local government should be afforded the option of issuing debt on a taxable basis, with an appropriate interest subsidy from the Federal Government. Also, tax-exempt debt now issued for non-governmental purposes--pollution control and industrial development bonds--should be issued on a fully taxable basis, again with appropriate interest subsidies. According to our calculations, these changes should result in a substantial benefit to state and local government in the form of a broader market for their securities, which could result in lower borrowing costs, at little, if any, expense to the Federal Treasury.

-- Lastly, partically in recognition of the growing participation of the smaller investor in the state and local bond market, we believe the time has come for a Federally imposed uniform system of financial accounting and reporting by state and local issuers which sell a substantial amount of securities in our capital markets.

Precipitated by major financial reversals such as the Penn Central bankruptcy, there has been a marked increase in the tendency of investors to restrict themselves to higher grade instruments--a "flight to quality" to use the terminology of the market. We must satisfy this legitimate interest of the investing public in detailed, accurate and comparable data by requiring complete and accurate disclosure. This system of disclosure has helped make our corporate markets the finest in the world. The time has come to broaden it to the municipal market as well.

In my view, it is these steps which Congress and the nation must focus upon in dealing with New York City's financial crisis:

- -- a sound fiscal policy administered by a realigned management, and including a credible balanced budget;
- -- a temporary increase in state assistance through a state tax;
- -- an orderly mechanism for debt restructuring, with the financial community and investors participating in the bridge back to the capital markets;
- -- a complete study on Federal, State and local relationships in the area of assistance to the disadvantaged;
- -- a broader market for municipal securities; and
- -- a uniform financial disclosure system for state and local government.

This is a program designed to attack the causes of the problem at their roots. But unlike the legislative proposals before us today, it is far more likely to return our greatest city--indeed all our cities--to a totally sound fiscal basis.

The Legislative Proposals

Three of the proposals before us today--S.1833, S.2372 and Senator Proxmire's suggestion of a taxable unsubsidized bond with a penalty premium--involve guarantees or insurance of municipal debt. We are also considering Senator Bentsen's approach in S. 1862: Federal Financing Bank purchases of State and local debt. Finally, while not specifically on today's agenda, I shall also discuss Senator Humprhey's suggestion of a National Domestic Development Bank, embodied in S. 1473.

Generally speaking, my concerns with proposals for Federal financial assistance are twofold:

First, any such assistance would involve expansion of Federal credit, driving up Federal borrowing costs, the borrowing of all other issuers and crowding out certain marginal borrowers.

Second, the discipline of the market would be lost. No longer would spending be constrained by the desire to avoid higher borrowing costs or the loss of credit. Only pervasive Federal fiscal and financial control of local government, in violation of federalism, could provide the constraint.

Guarantees or Insurance

There is absolutely no difference between a guarantee program and insurance program. Either would involve a commitment by the Federal Government to meet debt service requirements in the event the issuer is unable or unwilling to make such payments out of its own revenue sources. And once provided, a guarantee could not be withdrawn if, for example, the issuer failed to meet the fiscal conditions of the program. The government's obligation under a guarantee program would be to the investor, not the issuer.

S. 2372 proposes that the Federal Government re-insure 75 percent of the risk underwritten by private insurers of municipal bonds. This proposal would be of no value to New York or any other city of even moderate size. The private insurance sector has been unwilling to commit substantial resources to this form of insurance and consequently the risk ceiling of the larger of the two private insurers is only $20 million per issuer. Given that maximum risk level, even with Federal re-insurance only $80 million of the securities of any issuer could benefit from the program.

Loans

S. 1862 and S. 1473 would in effect provide for Federal loans to State and local government. S. 1862 would use the existing mechanism of the Federal Financing Bank of purchase municipal securities. Since the purchases would be without recourse, there would be no means of enforcing compliance with guidelines regarding fiscal restraint. I would also note that the $3 billion purchase authority would be inadequate even to deal with New York City's needs alone.

S. 1473 would create a new bureaucracy--a National Domestic Development Bank--to allocate credit to State and local governments. Federal bureaucrats, located not only in Washington but scattered throughout the country, would be given the final word on whether a particular local need was worthy of financing.

Guarantees, insurance, loans, development banks--each of these proposals has serious implications for the condition of our capital markets, would eliminate market restraints on spending at the State and local level, and could threaten the traditionaly autonomy of these levels of government over their fiscal and financial affairs.

Impact on Capital Market

Too often, when we concern ourselves with the problems of the municipal bond market we tend to forget that this market is not entirely distinct, but is instead an integral part of our capital market structure as a whole. And the same things that are happening in our capital markets as a whole, the same things we warned about almost a year ago, are happening in the municipal market. Higher rates, shorter maturities, crowding out of sound, but marginal credits: these are the concerns the nation's mayors brought to the President and to the Joint Economic Committee two weeks ago. But they misplaced the blame. The blame primarily lies not with New York City, but with inflation, caused by massive continuing Federal deficits and the substantial new Federal borrowing required to finance them.

Any program of Federal assistance would further exacerbate these problems. Any expansion of Federal credit--including a federally guaranteed municipal bond--would further strain our overburdened capital markets. Federal borrowing costs would rise and, since our borrowing establishes a benchmark in the marketplace, the borrowing costs of all other issuers would rise as well. Many additional marginal credits--housing, small business, consumers-would be crowded out of the markets. Yield differentials between the stronger and the weaker credits, are at record highs: recently the spread between A and Baa Industrial bonds has been as high as 200 basis points; double the 1974 figures and four times greater than the 1971-73 average. Additional Federal credit in the market could cause these spreads to widen further. And if guaranteed bonds retained the tax-exempt feature, the impact on unguaranteed municipal issuers would be especially direct and could be severe.

Fiscal Restraint

Of even more concern is the potential effect of these programs on fiscal and financial decision-making at the State and local level. Like all borrowers, a State or local government's access to credit depends upon its ability to persuade potential lenders that its financial affairs are such that the lender can reasonably expect to be repaid. A Federal guarantee would have the effect of removing this element of concern on the part of the lender and thus have the corresponding effect of removing the market imposed restraints on the borrower.

The only effective substitute for the restraints of the marketplace would be direct Federal control. While some have suggested the interposition of State control, I seriously doubt whether it would provide a viable alternative. There would be little reason for a State agency not to yield to the same pressures as a local government in the absence of discipline from the market or some other source.

Federal control of fiscal and financial affairs at the local level presents grave practical and philosophical difficulties. This is not a dispute between liberals and conservatives, but rather simply a question of the right of citizens to be governed by their duly elected local leaders rather than by Federal bureaucrats.

We would have to create a new bureaucracy, simply to concoct and enforce the guidelines as to local priorities we here in Washington would be imposing on the Governments of the nation. We would be confronted with the sorry spectacle of duly-elected local officials lining up outside my door, attempting to persuade me that they were carrying out their responsibilities in a satisfactory fashion. We would, in short, be contravening constitutionally - imposed principles of Federalism; principles which lie at the heart of the structure of government in this nation.

Thousands, perhaps tens of thousands, of governments would resist this intrusion into local affairs. And they would be absolutely right. But in the final analysis, theirs would be a Hobson's Choice: Submit to Federal control or pay the price of independence in the bond markets.

None of us can assess with any degree of precision the contribution the division of governmental authority called for by the Constitution has made to the quality of life in this country. But I doubt our society would be as heterogenuous, as tolerant of diversity, as responsive to local needs if all basic decisions were made here in Washington.

Comparison with Existing Programs

It is such considerations which plainly distinguish the pending bills from programs such as FDIC or FHA insurance. It is altogether appropriate to require that all of the nation's banks be subject to the same operating standards and be subject to consistent and detailed Federal supervision and regulation. It is equally appropriate that a citizen seeking the assistance of the Federal government in obtaining a mortgage disclose fully his financial situation and open the property he desires to purchase to extensive Federal scrutiny.

Imposing uniform standards on State and local governments is plainly an entirely different matter. Each political subdivision in this nation has unique needs. And each is led by a person selected for the job by an electorate which believed that such a person could best translate the needs of the community into effective governmental decisions. Yet any program of financial assistance would require bureaucrats in Washington to supervise these decisions and reverse them if necessary, irrespective of the wishes of the local electorate. It is one thing to supervise a corporate management, or to reject the views of boards of directors or stock-holders. Under our democratic system, it is quite another to supervise and control the affairs of local governments.

In short, State and local government have a special status in our Federal system. The proposals for Federal financial assistance now pending before this Committee would, of necessity, require that such special status be ended.

Guaranteed Bond with Penalty

As an alternative approach, the Chairman has suggested guaranteeing municipal debt, but imposing an extremely high interest rate penalty. First, as with any guarantee program, the adverse impact on the capital markets I outlined above would be fully present. Second, any conceivable penalty rate -- 3, 4, even 5 percent -- would represent a small increase in the burden on the borrower, relative to the value of obtaining access to credit. When an issuer is faced with the possibility of losing access to credit, it is likely to cut its expenditures, but when the prospect is only higher borrowing costs, the incentives for restraint are far weaker.

Impact of Default

I have concentrated today on a variety of approaches to the financial situation in New York City and New York State. I believe the approach I have suggested is desirable and workable. I cannot support the approaches in the legislation before this Committee. To complete the analysis, however, it is necessary to discuss the consequences if none of the approaches is adopted.

My views on the impact of a potential default have not changed materially. I have always believed that a default would be highly undesirable; "awful" may be the best description. I have always believed that a default could and should be avoided by any appropriate means. But putting aside for a moment the absolute desirability of avoiding default, I cannot conclude that a default would devastate our financial markets or our economy.

At the same time, I have often underscored the importance of psychological factors and our inability to predict psychological reactions with any certainty. We have been carefully monitoring the marketplace daily and have noted the developing psychological impact. Restraint is of utmost importance; I must point out that dire predictions of impending doom could well become self-fulfilling.

My views on the overall question of the impact of default are fully expressed in my testimony before the Joint Economic Committee and I do not need to repeat them in detail here. I do want to concentrate and expand upon one particular concern: the impact of a potential default on the ability of other State and local governments to raise necessary funds in the municipal market.

Earlier in my testimony, I noted that municipal governments are facing the same pressures as all other borrowers: a diminishing supply of capital at higher and higher rates caused primarily by inflation and the growing Federal usurpation of the supply of credit in this country. I also mentioned that within the municipal market itself there are structural problems which need to be addressed as State and local capital requirements grow faster than the demand for tax-exempt securities. I have also noted that all investors are increasingly sensitive to quality considerations and are demanding more and more evidence of financial soundness.

Perhaps the most important factor in today's market is uncertainty, a psychological factor which markets do not tolerate well. A number of intermediaries and investors are, we understand, refusing to commit funds to the market --thus impairing the borrowing ability of many State and local governments -- until the New York City situation is resolved. New York City's difficulties have been the major factor in the uncertainty and have intensified investor concern with quality. But New York's financial crisis did not create the other problems besetting the market, and an end to that crisis will not make them go away.

Markets have a tendency to discount future events and a potential New York City default has been discounted to a significant degree in the form of higher overall yields and shifts in quality preferences. If default actually occurs, a possible further shift in quality preferences could influence the ability of credits which are perceived to be weak to raise funds in the capital markets. By contrast, the stronger credits may well benefit as investors' preferences shift even further in the direction of the higher grade issues.

I do not believe a default would precipitate a series of defaults by other cities through the country. No other city has had a cumulative deficit like New York City's and thus none must borrow simply to meet operating needs from year to year. To the extent other cities must borrow within a fiscal year to deal with seasonal cash flow variations, I cannot conclude that a default will materially impair their ability to do so. In short, either other cities have the money to pay their debts or they do not. Those which do should be able to obtain credit.

In asking ourselves what the impact of a default would be, we must also ask the correlary question of what would be the impact of various mechanisms to avoid default. If, for example, New York City were able to avoid default by implementation of the plan discussed at the beginning of my testimony, I believe that the result would be a renewed sense of faith in the ability of the State and local government sector and our financial institutions to deal with even the most severe problems in a responsible manner.

If, on the other hand, default were to be avoided by a Federal assistance program, the reaction could be more complex. Clearly, there would be no basis for concluding that avoidance of default meant that State and local governments were able to carry out their financial obligations. Just the contrary would be true. Meanwhile, there would be far more incentive for State and local governments to embark on more spending programs, irrespective of whether resources were available to finance them. The discipline built into the present system would be lost entirely.

And even if the assistance program were limited to New York City, its impact would be felt throughout the country. Issuers and investors would come to believe that every municipal security -- or certainly those of major borrowers -- in effect carried the moral obligation of the United States, even without a guarantee in advance. What the Federal government would do for New York, all would believe, it would necessarily do for any other jurisdiction which became unable to meet its obligations.

But perceptive investors would recognize the fundamental change in our system of finance and would see the risks presented. The inflationary expectations generated by the actual and potential expansion of the Federal credit involved would serve to accelerate some of the adverse trends we have seen in the markets over the recent past. Investors would become even more wary of long term commitments and would demand even higher yields on the commitments which are made. The ability of all sectors of the economy to finance investments in our future growth could be further impaired.

This committee faces some difficult choices. The risks of a default, in the final analysis, are unknown and unknowable. My own judgment is that such risks should be manageable. Moreover, as I have indicated in my testimony today, the proposals pending before the Committee presents a series of concerns which outweigh the risks as I perceive them. I would urge the Committee to concentrate its resources and its influence on approaches to the problem which will restore confidence in the fiscal and political integrity of the State and local governmental sector.

Mr. Chairman, I would like to conclude my remarks today with some purely personal observations. It has been nearly seven months to the day that the City's bankers reached the conclusion that a market no longer existed for the securities of the City. For this entire period, the citizens of the greatest city in the world -- its financial, industrial and cultural hub -- have lived from crisis to crisis. As one with deep personal and professional ties to New York City, I have great compassion for the plight of the citizens of New York and I share their determination to achieve a prompt and proper end to the crisis.

Over this period much in the way of laudable progress has been made. An "untouchable" expenditure increase for fiscal year 1975-76 was pared somewhat. The inexorable growth in the municipal payroll has been pared to some degree. The cumbersome overlay of bureaucratic structures has been partially reorganized and financial professionals are now playing an increasingly important role in the affairs of the City.

If this degree of progress has been made, one may legitimately ask, why hasn't the market reopened to the City?

I am afraid the answer lies in timing. Each of these steps, while laudable in and of itself, invariably came too late.

It is difficult to state precisely what actions would have reopened the market at any given point in time. But it must be clear to all that what would have reopened the market in April would no longer do the job in June. And what would have been adequate in June was insufficient in August. In short, throughout these long and enervating months, events and demands consistently outdistanced actions.

Another important point emerges from this troublesome history. There can be no doubt that Federal financial involvement at any point along the way would have stopped the reform process dead in its tracks. We need only look at what occurred when MAC was created in early June. For six weeks, virtually nothing in the way of reforms was accomplished. In late June, the need to obtain legislative approval of the City's budget caused a brief flurry of activity -- announcements of lay-offs, hospital and fire house closings. But as the garbage piled up over the Fourth of July weekend, most lay-offs were rescinded; and the closing orders have been largely ignored.

It was not until it became clear that MAC would be unable to borrow in August that the process of reform began anew. Each new deadline was faced with more strident demands for Federal assistance. And, after such assistance was again refused, the City and the State managed to take another hesitant, painful step in the right direction.

At the end of August, after nearly six months of crisis, the first meaningful data regarding the city's finances was released. While subsequent events have revealed that even such data was inaccurate and inadequate, at least a benchmark with which to measure the accomplishments of the past and the challenges of the future had been established. Again I ask the inevitable question: would such actions have taken place if Federal assistance had been promised or provided?
Much has been done, but much more needs to be done:

-- A credible plan for the prompt elimination of the budget deficit must be implemented;

-- in that regard, the State must act to provide a temporary supplement to the City's existing revenue base;

-- ineligibles must be removed from the City's public assistance rolls;

-- capital expenditures must be reduced severly and operating expenses must be fully eliminated from the capital budget;

-- the city's accounts must be fully conformed to acceptable accounting principles;

-- reform of the City's management structure must be completed;

-- if necessary, steps must be taken to restructure the City's short term debt.

If these things are done, and the market does not reopen, is default the only solution? In recent weeks and again today, I have expressed the view that the financial risks presented by a default can be mitigated, and, objectively speaking, the impact need only be temporary and manageable. At the same time, I have been equally candid about our inability to measure the psychological impact. We have continued to make market assessments on an ongoing basis and we remain deeply concerned that dire predictions and vigorous rhetoric may compound whatever psychological risks do in fact exist.

The time has come, ladies and gentlemen, to concentrate all of our efforts to restoring our greatest city to fiscal integrity. I have said many times that fiscal integrity is easy to lose and hard to recover. As we proceed through this difficult period in our history, I can only hope that the travails of New York City will have some impact on our attitudes as to the proper role of government in our society. What New York City has learned in the past seven months is a valuable lesson for us all. As we proceed with legislative consideration of the City's financial crisis, let us not ignore this important message.

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PRESS BRIEFING ON
PRESIDENT'S PROPOSAL FOR TAX CUTS AND
FEDERAL SPENDING RESTRAINT
BY
THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
ACCOMPANIED BY
EDWIN H. YEO, III, UNDER SECRETARY FOR MONETARY AFFAIRS
SIDNEY L. JONES, ASSISTANT SECRETARY FOR ECONOMIC POLICY
DALE S. COLLINSON, TAX LEGISLATIVE COUNSEL
WEDNESDAY, OCTOBER 8, 1975 3:30 P.M. EDT

SECRETARY SIMON: Ladies and gentlemen. I thought it would be useful for us to get together today. The President's speech did not give us enough time to get into a discussion. You have had a day to digest the written material, the newspaper stories, plus an unscheduled Congressional hearing that lasted a long time.

I thought it might be useful to have a little give and take on some of the specifics. And, perhaps, much of what has happened in the last couple of days has provoked some additional questions. I am sure it has.

Material that we are going to hand out this afternoon includes many additional charts that we have prepared--some in response to requests; some on our own initiative; and if, indeed, you can think of other charts that should be made up, I am sure we will oblige.

I have brought our Tax Expert; our Economist; and my Under Secretary for Monetary Affairs, who will respond to questions, along with me.

I would just like to make an opening comment about some of the events of the past two days, and offer some reflections on this program. I really believe--as you have heard me say on many occasions--that this is a time of critical decision in our country, and we have to decide whether we are going to continue to do down the path of growing Government dominance over our economy, or move to return the decision-making process to the American people.

As the President said, we cannot travel down both roads at the same time!

In just two years, Federal spending has jumped by about 40%. Our deficits have been over $100 billion. If you want to add the off-budget items on there, it is even larger.

Now, some have said that this proposal of the President's is preposterous. Well, I rather believe that it is quite preposterous that somebody would make a statement like that! And I don't think that the American people are going to think that this proposal is preposterous. The American people, in my judgement, are fed up with the massive deficits and high unemployment; double-digit inflation; with the strains that appear in our financial system; and the boom/bust cycles of the past year.

I believe the American people want the decision-making returned to them. They don't want a growing Government domination over their lives. This is what the essence of our Program is. Ask the question! Take the decision to the American people: Do you want more Government spending, or do you want lower taxes? We cannot have both.

What we are saying is that we have finally cut the explosive growth in Federal spending. This is not a net cutback. It is a slow-down in the growth. We are still going to increase spending in Fiscal '77 over Fiscal '76 by $25 billion--an increase of over 7%. High by any historical comparison!

This is the purpose of this: To begin to work toward a balanced budget three years hence.

If the Congress claims an inability to get something done, I have seen them act with great speed at times when the spirit moved them.

I can also remember a spending ceiling that was adopted about ten years ago, when Lyndon Johnson was going to cut taxes--if I remember correctly--and the Chairman of the Ways and Means Committee was given a ceiling. We got a ceiling on spending! It has been done! It was a loose ceiling and not the one we desire right now. But I believe Congress can act. We have a process, now, called the Budget Reform Act which gives us all of the mechanics of establishing a ceiling, for Fiscal '77, of $395 billion.

That is the President's Program: A Ceiling on spending for a Tax Reduction.

With that, why don't we just open up with the questions; and we all will be delighted to chip in and respond.

MEMBER OF THE PRESS: Mr. Secretary, how did you happen to pick $395 billion rather than some other number, as the spending total?

SECRETARY SIMON: This was done in the OMB process--figuring out the expenditures and attempting to identiy the various areas of reductions.

There is nothing magic about $395 billion. If somebody wished to cut it further, I am sure that that would be all right with us.

MEMBER OF THE PRESS: Would you disclose some of the areas for reduction of expenditures?

SECRETARY SIMON: No! As I said, we looked across the entire spectrum; and the OMB has done this at great length. But the Budget process in the Government, as you know, is done by the various Agenices and Departments afterward, we receive instructions from OMB; and we then set the spending levels. It is debated with OMB. Finally, it is the President who makes the decisions on where the specific cuts will be. The same thing is going to be done now.

MEMBER OF THE PRESS: Is Defense exempt from the cut?

SECRETARY SIMON: They most certainly are not!

MEMBER OF THE PRESS: How much of Defense cut is there?

SECRETARY SIMON: As I said, the specifics of the Defense cut have not been established yet; but they are definitely not exempt!

MEMBER OF THE PRESS: Could you tell us what portion of this is accounted for by what you described as "uncontrollable?"

SECRETARY SIMON: Well, you know, I have always had a great deal of trouble with that term, "uncontrollable." I don't happen to believe that the budget is, per se, "uncontrollable," because you are telling me that spending--somebody is suggesting spending-- is out of control. I don't believe that. We can re-order priorities in this Country. We should have done it a long time ago! And the budget is, in that respect, controllable.

MEMBER OF THE PRESS: Did the President give any instructions to you fellows in the Cabinet this morning on how to reach this goal?

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SECRETARY SIMON: No. The Departments themselves are commencing their budget activities, right now, on the Fiscal '77 budget. They will be intensifying this over the weeks ahead.

MEMBER OF THE PRESS: Did he not, specifically, ask you this morning to please identify possible "cut" areas?

SECRETARY SIMON: Sure! "To make sure that you know very well what our target is, in mind"--because the President is going to the Congress with a $395 billion budget for Fiscal Year '77.

That doesn't mean that the Congress is going to agree with every single area that we decide to cut. That has never happened. They will have their own ideas of what the priorities are.

MEMBER OF THE PRESS: How much will the Treasury's financial needs be boosted by this plan. early next year?

SECRETARY SIMON: I would say, the first half of the year, approximately $5 billion.

MEMBER OF THE PRESS: Mr. Simon, to get the type of spending ceiling resolution from Congress that you want, isn't it a fact that the Budget Reform Act will have to be amended in some way, because, as it is now written, there is a procedure for concurrent resolutions in the same year following the presentation of the President's proposed budget.

SECRETARY SIMON: I don't believe there is any provision there that prohibits stepping up the timetable--as far as the resolution of spending is concerned. That is all the President is asking for--a Congressional Resolution mandating spending at $395 billion for Fiscal Year 1977. Over the months that follow, we will argue out the specifics, and work out the specifics together, because this is the only way we are going to get a balanced budget in FY '77.

MEMBER OF THE PRESS: Mr. Secretary, to what extent would you regard the new Congress--the one that is elected in November 1976 that would have to deal with any supplemental appropriations in that Fiscal Year--as being bound by the $395 billion ceiling?

SECRETARY SIMON: The President is bound by this $395 billion ceiling. He will hold with a veto--and whatever means he has--to that number.

MEMBER OF THE PRESS: Excuse me. I would like to follow up on that question.

SECRETARY SIMON: Nobody knows. You can ask about '77 where lots of people are going to be. That is an unanswered question. But that is what we are aiming for.

MEMBER OF THE PRESS: When you say the President will hold to that with veto and whatever else-- what else is there except impoundments, which are illegal now?

SECRETARY SIMON: Of course, there are the deferrals in decisions, which we had limited success with. Probably three to four billion, I think, were successful out of the seventeen.

MEMBER OF THE PRESS: Right! If you were unsuccessful then what recourse do you have under the law?

SECRETARY SIMON: Relative to the actions and inactions that are required, that is a last recourse because, as you say, the impoundment method is not one that is, obviously, acceptable.

MEMBER OF THE PRESS: Mr. Secretary, the President said the "sense of Congress" is not legally binding.

SECRETARY SIMON: I am not a lawyer, but it must be binding, whatever it is, and it doesn't sound to me like a sense of Congress is binding.

MEMBER OF THE PRESS: How much of a crowding-out effect will the additional $5 billion in financing have?

SECRETARY SIMON: You know, you weigh this. It is not quite a Hobson's Choice, when you talk about the first half of the Fiscal Year--the Calendar Year '76. We say, "What would happen in the absence of the Program?" You are looking at a budget deficit for '76, and no one is quite clear what the final number will be. That is still being debated.

In Fiscal Year '77, the final budget in the absence of this action would be somewhere, as we explained at the mid-season review, in the area of $60 to $70 billion.

This is at a time when we would be moving into periods of high economic activity. Our budget deficits and our financing activities at that time is what should concern us greatly; i.e. heavy financing as the private demand once again becomes normalized.

If I can be given my "druthers." I would rather refinance during periods of economic slack, while there is still slack in the economy--as there will still be in the first six months of next year--than I would beyond that. I would rather do neither, understand me; but we don't have the luxury of that choice.

MEMBER OF THE PRESS: You said a month ago, though, that the crowding out had already begun.

SECRETARY SIMON: I think the figures show that the crowding out process, as far as the BAA's, and under, in the marketplace have been effectively squeezed out of the Market. Nobody can qualify this. If I could have, I would have done it, in testimony, a long time ago. All you can do is look at the statistics on who has been displaced in the marketplace, by rating category. That tells you a portion of the story. It does not tell you the portion of those who decided not to go at all, due to high rates or total inability to borrow.

MEMBER OF THE PRESS: Mr. Secretary, your critics have said that you are advocating the policies of Herbert Hoover.

Would you reply to that?

SECRETARY SIMON: Well, you know we talk--I don't know. In this rhetoric that ensues, I think a lot of it is demagoguery--and sloganisms--that appear on the economic scene.

I guess I could put a lot of slogans on the economic policies of the past, indeed, on the recent past--especially in the ten years that have brought us to these present problems. But I know what our job is, regardless of what you wish to call it! That is, to put the economy back on a road toward sound, durable, and lasting prosperity. It is done by, once again, stepping on the accelerator, as we have done so many times in the past, and just having a resurgence of inflation which will bring us back to a worse recession and even higher unemployment.

So, let them talk about whatever they wish to talk about; label the slogans. That is one of the unfortunate problems that we have in this Country, today; that the level of economic literacy is, unfortunately, terribly low; and this educational process is critical.

If we were to explain to the American people the choices that confront them right now, I am afraid we would have moved from a market economy to a political economy without knowing it.

It used to be an economy where you and I made the decision. We made the decisions in the drug store and the marketplace, daily.

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That has not happened recently. It is not happening today.

By the way, the Resolution for the spending ceiling, I believe, was just introduced in the House.

MEMBER OF THE PRESS: Mr. Secretary --

SECRETARY SIMON: By Del Latta.

MEMBER OF THE PRESS: Would you characterize as "using slogans of that type," the characterizing of the debate between Congress and the Administration, as a debate between Socialism and freedom?

SECRETARY SIMON: Well, I would say -- as I believe I said this morning to the Congressmen -- that is a classic debate.

All one can say is that they make comparisons many times with the direction in which we have been heading; as you measure it by percentage of GNP, and the financial strains. As I noted in the speech I gave to the Economic Club the other night, you finally go down that road terribly far and you run out of options. Ultimately, your only option is a Government response -- and that is what we must resist. Yes. That is the classic choice between freedom and Socialism.

MEMBER OF THE PRESS: Is that involved here, though?

SECRETARY SIMON: I beg your pardon?

MEMBER OF THE PRESS: Is that what is involved here?

SECRETARY SIMON: Ultimately, that is what is involved here. That is correct; but it is so imperceptible, and so insidious that people don't realize it is happening.

If you read Von Hyatt's book, he spoke about that in not too veiled terms -- and so has George Will, in many of his columns.

MEMBER OF THE PRESS: Mr. Secretary, can you give us some of the volutions as to how this decision was arrived at. So many in the Administration were opposed to a tax cut, for a long time.

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Who came forward and put this plan across. How did it evolve?

SECRETARY SIMON: This is a proposal that, actually, we started discussing over a year ago, when we were attempting to get a handle on Government spending to slow down the growth in Government spending -- this is the critical priority, which you, obviously, can see.

MEMBER OF THE PRESS: How can you do it?

SECRETARY SIMON: Well, we tried the "deferral in decision" route.

We tried submitting budgets, such as the President submitted, with the $52 billion deficit that now will be some $20 billion or so larger, in the final analysis.

Finally, we recognized that, in order to get the American people behind this program -- and that is what we must do, certainly, because it is the American people who do make the final decision, through their Legislators in the Congress -- we need to have the American people first aware of the problem, and second, the direction that we are heading in. When they become aware, they will become aroused. I believe they are, right now. And then they will decide that the time has come to turn this around. That is a very effective way to do it!

Somebody said, "You are eroding our tax base."

Yes. I guess you can say that we are eroding the tax base. We are taking less away from the American people! We are taking more away from the Government!

In other words, the decision making is going back out there where it always was in our economy.

MEMBER OF THE PRESS: Do you want to see Congress put a cap on entitlement programs?

SECRETARY SIMON: I am not going to say -- as I said to a question over here -- what any of the specific proposals are. But I will guarantee that they are going to be far-reaching; they are going to be right across the board!

MEMBER OF THE PRESS: I am asking you whether you advocate a cap on entitlement programs.

SECRETARY SIMON: Until I look at all of the various priorities, I am not going to make up my mind on any single one; and get locked in. You know this business that has been preached -- attempting to influence some that the only programs that we are going to cut are from the poor and the needy, and from the Food Stamps, and from this, and from this, and from that.

My goodness! Doesn't logic tell you that a budget deficit, or a budget expenditure of $243 billion, has $28 billion worth of fat in it?

Yes, it certainly does. That is what we are going to take out.

MEMBER OF THE PRESS: Putting it another way, Mr. Secretary, is there any way you can reach the $395 billion without touching some of the entitlement programs?

SECRETARY SIMON: It is doubtful.

MEMBER OF THE PRESS: Mr. Secretary, the political economy has been charged to this program, since the tax cuts begin in January, and the budget cuts don't begin until, roughly, the following October.

SECRETARY SIMON: This is one of the problems that we had when we first discussed what I call this dollar-for-dollar proposal: a dollar cut in expenditure for a dollar returned to the American people. The mechanics of the program are very difficult, and they are especially difficult, this year, on the lag between the new Fiscal Year beginning in October. And it lends itself, naturally, to a charge that it is good politics to pump it up until November and afterwards. My response is the same response I made yesterday. Wonderful! If you think it is political, put on the spending lid on January 1. We will start the whole program then!

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MEMBER OF THE PRESS: You mean there are no politics in this?

SECRETARY SIMON: Not as far as I am concerned. Absolutely not!

MEMBER OF THE PRESS: Why then, Mr. Simon, did Mr. Nesson, when asked about this at his briefing this morning -- whether this whole matter will become a political issue -- say, "You're damn right it will!"

SECRETARY SIMON: I think the whole critical choice of those who believe the Government should make many of these decisions, and those of us who believe that the decisions belong with the American people, is going to become the major political issue in '76. Yes, I think that we have the most critical choice in any election in my lifetime! Yes!

MEMBER OF THE PRESS: Do you consider that any of the entitlement programs are Socialistic?

SECRETARY SIMON: No, I don't. I have felt -- contrary to what I have read in many places -- that entitlement programs, and transfer programs, and Food Stamps are necessary; that the Government has a responsibility to help the needy in this country. But let's put that whole subject into perspective, and look at the growth in these programs; the inefficiencies in many of them. In my statement, I must admit that is the statement that I made in August, in Bloomington, that caused quite a stir -- there must have been people who were news-starved that day in the middle of August -- because that statement has been made by many, many people, including many Members of Congress. And this is one of those programs where there is a great deal of waste. We all admit that.

But what happens, just to get down to the bottom line? We don't have to debate. When there is waste in a particular welfare program, obviously we are wasting money and giving money to those who are ineligible--who are not really needy--and that is money that is wasted, that could be spent on the poor. But, more importantly, if Food Stamps, or any other of the transfer programs, lose favor with the American

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people; if they think they do have chiselers or rip-off artists; then the pressure on Congress to gut these programs becomes intense. And who suffers when they are gutted? The very people that the programs are designed to help -- the poor!

So, all I am saying is: Let's not have the overlapping, and the inefficient programs. Let's design regulations so that these programs are going to help those people that they were designed to help.

That is our responsibility!

MEMBER OF THE PRESS: Mr. Secretary, you don't think the Congress represents the people's real choice, then, because they keep voting for these programs, even over vetoes, sometimes?

SECRETARY SIMON: Oh, yes, I think they do. Here, again, that is a matter of the awareness.

We have bills with titles that are politically popular, like "Education," and all the rest. The bill that was overridden the other day on the President's veto -- the "Education" Bill -- only adds $300 million for the budget this year. That isn't much!

You know, that is the trouble with every one of these programs. It is $300 million this year, but it adds a billion in Fiscal '77! And they never go down! They just continue to grow.

That is why each one of the programs that is enacted each year starts small, but ends up extremely large. That is where the Education process comes in. We really have grown very large very fast--as far as the expenditures and the new programs--and it is time to sit down and re-order the priorities in this area. But first we have to slow down the explosive growth.

MEMBER OF THE PRESS: Mr. Secretary, you are saying then that the people need a gimmick like this --

SECRETARY SIMON: I don't consider this a gimmick!

MEMBER OF THE PRESS: Well, they need a device.

SECRETARY OF SIMON: I consider this very real.

MEMBER OF THE PRESS: Are you saying that the people of this country need the device of this resolution well in advance of when the normal decisions are made about the spending level and the taxing level that would obtain for Fiscal Year '77 because, otherwise, the normal budget process would not produce what they really want?

SECRETARY SIMON: No. That is not correct.

The reason that this came up at this time is because the President had to make a decision at this time, as far as taxes are concerned. He considered a further tax reduction -- an extension of the tax reduction -- to be irresponsible and dangerous.

Now, a tax reduction coupled with an expenditure reduction, therefore, is the proper direction in the long run for this country, but that had to be announced now. He wants the decision from the Congress before the end of this year, as to the expenditure ceiling that he wants placed in '77.

MEMBER OF THE PRESS: Why did the decision have to be made <u>now</u>?

You have said--many times--that you could wait until late in the year on the tax decision.

SECRETARY SIMON: Well, because Ways and Means was marking up the tax bill on October 6 or 7, and that is when the decision had to be made. I think it would be irresponsible of the Administration to wait any longer. We would like to wait as long as possible and get the third quarter "Real Growth," and the other economic statistics, but we did not have the luxury of another couple of months, as far as the Congressional calenders go. So the President made his decision then.

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MEMBER OF THE PRESS: Yes but, Mr. Simon, to follow up on that, the tax cuts in your own proposal take effect -- would take effect -- on January 1, and the spending reductions would not even start to take effect until October.

Since there is a natural break, why do the two have to be linked at all?

Why could not the normal budget process make the decision in October of 1976 about the 1977 budget, and then the Congress could decide whether to cut taxes; to cut spending $28 billion, or increase taxes $28 billion?

SECRETARY SIMON: We felt that this was the wisest way to proceed, as far as the tax reduction and the expenditure cuts were concerned, because it has to be done well in advance. As I say, this dollar-for-dollar proposal does not have a perfect timetable to it. It is impossible to ever have. The budget process made it possible, in my judgment -- better than it would have before the budget process came into being.

As I say, if they wish to move back the spending reductions earlier than that, I would certainly be in favor; but there -- again, being realistic -- the Fiscal '76 juggernaught is on-going. It would be extremely difficult to do it at this point.

MEMBER OF THE PRESS: Mr. Secretary, what do you think will be the inflationary impact of a tax decrease of that size during that 10-month interim?

SECRETARY SIMON: Sid, do you have an "Inflationary Impact" on the 10-month interim?

DR. JONES: Over the period of the planning of the President's program, there was a run of what we call the Troika Model, which is prepared within the Government. The anticipation was that, although there would be quarterly changes in the rate of inflation that, in the main, over the next four quarters it would be in the six-to-seven percent zone.

We do not find, in those econometric projections -- which are, admittedly, very crude -- a significant or discernible change in the rate of inflation that was anticipated in the plans that had been laid out.

MEMBER OF THE PRESS: Is there any reason to think there would be lower interest rates, with this coming in, in January?

SECRETARY SIMON: I would like to comment on that, because this is sort of a follow-up to the question that Tim Schellhardt asked.

A very important aspect of the marketplace, which is little understood because it cannot be quantified in explanation, is the "expectations" of the marketplace.

If the Market expects our deficits to continue in the '60 to '70 rate, and Federal spending just to continue rolling along and growing at these exorbitant rates year after year, they see no hope!

Inflation expectations are built into the interest rates on the long end of the Market which includes, of course, the effects upon mortgages.

If they see that we, for once, are gaining control over spending -- over Government expenditures -- they can see light at the end of the tunnel. Then one can expect that, as this process moves on, interest rates will, indeed, move lower -- assuming we continue to have continued progress in the battle against inflation.

MEMBER OF THE PRESS: Well, Mr. Secretary, in view of the hostile reaction on Capitol Hill to this, do you think they are really going to change their expectations any?

SECRETARY SIMON: You know, I was interested in reading about that "hostile reaction." Of course, that is all in the eyes of the beholder, many times.

I testified for some five hours yesterday -- before Ways and Means -- and I read this morning that the Republicans were generally agreeable to it.

I have testified before Ways and Means on many occasions on many subjects, and I have never seen the Republicans as unanimous, and as strongly unanimous, in support of a program.

And there were, also, Members on the other side of the aisle who came strongly in support of it.

I think Congressman Landrum's comments about what his constituents had to say about this are extremely important!

I think that the reaction -- our judgement of what the Congressional reaction, indeed, is -- should not be expressed on the day of an announcement; on the day the Secretary of the Treasury goes up to testify. I think we should wait until the Congressman go home and have heard from their constituents, because I believe that they are the ones who are going to decide whether or not a spending ceiling is, indeed, enacted.

MEMBER OF THE PRESS: Have you had any reaction from your constituents?

Or is this your impression of the reaction on the Hill?

SECRETARY SIMON: I have no constituents!

MEMBER OF THE PRESS: Not yet!

(Laughter)

SECRETARY SIMON: Really, my reaction comes, you know, in the mail that follows. And I must admit that I think the reaction will be positive but, also, at the same time, having said that, I must also admit that I am rather prejudiced.

MEMBER OF THE PRESS: Mr. Secretary, last week you and some other Officials were cautioning Congress that the simple extension of the $12 billion package for 12 months would be quite inflationary and, as Paul Steiger pointed out, this package gives, for a period of nine months, an amount of stimulus or tax cut that is well beyond a simple $12 billion.

Why isn't this just as inflationary?

SECRETARY SIMON: I don't believe, Mark, that I ever used the term "highly inflationary."

As a matter of fact, I never, publicly, at that point said whether I favored, or did not favor it. So the debate -- even though your judgments are probably fairly accurate -- the debate never ensued in public as to my feelings and my reasons to be close to it. But when one looks at the benefits, and does a cost-benefit analysis on any program that you are about to give to Congress, you say: What are the disadvantages and the advantages? What is the short term, and what is the long term?

The long term benefits of this program were, clearly: the expectation is that we are going to have a balanced budget three years from now; that people can look forward to progressively lower budget deficits.

I don't believe you could say that, if we had what you call a simple extension of a tax, because it would not be a simple extension. You know that if they simply extended it, then they would simply extend it the next year when the time came around, as well. And this is the direction to move in -- if we want a slower rise in Government spending; if we want an ultimate reduction in the inflation rate back to the levels that we wish.

As I say, this budget balance in three years is important, as is the decision-making back out there.

MEMBER OF THE PRESS: Mr. Secretary, a question about New York:

You said this morning that you thought demagoguery existed in many areas.

Do you consider it "engaging in demagoguery" if someone says a default would injure the recovery?

SECRETARY SIMON: No. I don't! I think that any judgment on any issue that is backed up with as much analysis as one can put on a subject is absolutely responsible, whether somebody disagrees with it or not, because, as I have said on quite a few occasions, there are two aspects to a default.

One is financial and the second is psychological.

There is no one who can gauge the psychological effects, or the psychological impact, of a default. It is going into unchartered waters. Now, one can make these very subjective judgments on the effects of a default, but I can say one thing: That the statements that promise a national disaster in the ripple effects and the so-called collapse of the Municipal Bond market, I consider irresponsible because -- in looking at the Market for the past four months -- I am talking about the Municipal Bond market -- sure, interest rates have gone up. Interest rates have gone up in every market! The ratio of tax exemptions to taxable remains, from prime municipals to prime corporates, at 30% -- where the subsidies have always been.

Sure, there are those credits within the Market that are trading well above that. There is no doubt about that. New York City always traded above it, because of its supply. There were those who were concerned about the way it handled its financial affairs. There are other cities that fall in the same category.

This flight to quality that commenced with the Penn Central bankruptcy time is going to continue, regardless of the outcome. The uncertainty of the situation in New York is also compounding the problem, where industrialists, naturally, stay on the side line until there is a resolution of the problem. In the interim, we should make these measured judgements and give our opinions on the subject. But, certainly, these opinions do not include -- unless qualified, as I have said -- that national disaster, or economic collapse, or what-have-you is going to come because of -- and I have never heard the "because of."

MEMBER OF THE PRESS: Mr. Secretary, yesterday you were asked in the Ways and Means Committee whether Dr. Burns fully supported this plan, or approved of it.

You said, "Yes, he certainly does."

This morning, at the Joint Economic Committee, Dr. Burns said he would only approve of a plan like that if the spending cuts went into effect the same time as the tax cuts, and that he had some doubts about the lag time in between, under the President's proposal.

Was he fully briefed on this?

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SECRETARY SIMON: Arthur sat in the room with us on every discussion that we had on this. As you know, Arthur is one of the Economic Advisors, and the President is very careful, in all of our deliberations with him, in going around the room individually. I can assure you that none of his advisors ever hesitates -- whether we think he will agree or disagree -- to give our very honest opinion -- and very strong opinion, if it is warranted.

MEMBER OF THE PRESS: Were you aware of that reservation that he had?

SECRETARY SIMON: No.

MEMBER OF THE PRESS: Mr. Secretary, one of your predecessors once urged another Cabinet Member to keep his "cotton-picking hands off" of the Economic matters. I wonder what you think about Secretary Dunlop going around advocating this extension of the tax cuts -- which is more or less considered to be in the Treasury's ball park.

SECRETARY SIMON: I don't think any of the Economic Advisors to the President should be prohibited from speaking on the subject of economics.

I fully support anyone giving his honest opinions in Congressional testimony. That is what we are here for -- to give honest opinions! There is no such thing as "cotton picking hands." We have and Economic Policy Executive Committee. John is a very important Member of that Committee. He voices his opinions, just as I voice mine, and the President weighs all of the various judgements and makes the decision.

MEMBER OF THE PRESS: Mr. Secretary, Dr. Burns, at the Joint Economic Committee, said that he was not today prepared to recommend legislation to help New York. But then he went on to say that it is a close question, and he might change his mind at a time when it is decided that such legislation should be enacted. He laid out his proposal for what it should contain.

Do you think it is that close a question?

SECRETARY SIMON:. I don't know. I didn't hear that part where Arthur said it was a close question.

MEMBER OF THE PRESS: He said he could "understand" -- if other Members of Congress would decide that.

SECRETARY SIMON: Fine! That is a different story.

MEMBER OF THE PRESS: Then he laid out a scenario of what the legislation should contain.

SECRETARY SIMON: That is fine. If asked -- and perhaps I will be, tomorrow -- as to what I think, you are going to read my testimony tomorrow, and you will see what the Administration's position is. But then, you are always pressed in testimony, and people say, "Okay, we have your position. Now, supposing we decided to go the other way? What would be the best way, in your judgment, for us to go?"

MEMBER OF THE PRESS: That is not the way it was this morning.

SECRETARY SIMON: No! The point is: I would be glad to tell them what I think. And I very definitely think that an RFC type of mechanism is definitely not the route we should go. If Congress decided to pass aid for Municipalities, under any guise in this country, I don't think the establishment of a new bureaucracy is the method by which it should be done.

MEMBER OF THE PRESS: You still do not favor any sort of legislation in this area?

SECRETARY SIMON: No, I do not!

MEMBER OF THE PRESS: Mr. Secretary, despite the best efforts, Congress may well pass a tax cut without spending ceiling. In the event that the President is then obliged to veto such a tax credit, are you concerned that the resulting stalemate will lead to harm -- perhaps irreparable harm -- to the economy?

SECRETARY SIMON: No. Absoulutely not! The President is going to veto the simple extension of the tax cut, in the absence of a resolution on the spending ceiling. A

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simple extension -- whether it was $10 or $12 billion in that area, in a trillion-and-a-half-dollar economy that is going to show vigorous, positive real growth, I don't consider that consequential.

Sid, do you want to add to that?

DR. JONES: I think you would really have to have greater -- much greater -- confidence in the econometric models, to say that five or ten billion dollars in the economy would make the difference thereof. I think, personally, that the combination of a tax cut will supplement, perhaps fill in, some gaps in the pace of the recovery that we have. I speak mainly to the point of personal consumption, which I consider to be vital to the near term -- to draw business capital investment to reinforce the recovery.

So I think one is not talking here about "supporting" a recovery. One is really talking about the strength and substainability of a recovery, and I believe that the tax cut extension would make that more sure, and more certain. I favor it upon that basis.

SECRETARY SIMON: One thing before we shut it off. For any other questions or charts, or comparisons that you would like, you can get in touch with the office, as I say. I am sure we have them available. You have all of the information that you need on the proposal.

Thank you gentlemen -- and ladies!

(Whereupon, the Press Conference was concluded.)

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Department of the TREASURY NEWS
NGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 4:00 P.M. October 9, 1975

TREASURY'S 52-WEEK BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for 364-day Treasury bills to be dated October 21, 1975, and to mature October 19, 1976 (CUSIP No. 912793 ZT6). The bills will be issued for cash and in exchange for Treasury bills maturing October 21, 1975.

Tenders in the amount of $2,090 million, or thereabouts, will be accepted from the public, which holds $1,087 million of the maturing bills.

Additional amounts of the bills may be issued at the average price of accepted tenders to Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, which hold $ 916 million of the maturing bills.

The bills will be issued on a discount basis under competitive and noncompetitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value) and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Wednesday, October 15, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without

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deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on October 21, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 21, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

e Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE October 9, 1975

EMERGENCY LOAN GUARANTEE BOARD
SENDS ANNUAL REPORT TO CONGRESS

The Emergency Loan Guarantee Board, in accordance with the requirements of the Emergency Loan Guarantee Act, today delivered its Fourth Annual Report to Congress, which represents a full report of the Board's operations from August 1, 1974, to July 31, 1975, and the Board's assessment that the Government's position remains adequately protected by its first lien on the collateral which secures loans made under Government guarantee.

The Report begins with a brief discussion of the guarantee legislation and the Board's organization and functions, followed by an overview of the 1971 Agreement and Lockheed's borrowings thereunder. The Report then describes Lockheed's other financing agreements, including the 1975 agreement to extend the Government guarantee to December 31, 1977. A subsection describing Lockheed's payments to foreign officials and the inquiries being made into these activities by various U. S. Governmental agencies follows. The Board's financial statements as of July 31, 1975, are next presented. The Report then focuses on the Board actions taken during the period August 1, 1974, through July 31, 1975. Mention is made of the Board's monitoring activities. Also described are those material Consents and Amendments to the 1971 Agreement, which were requested by Lockheed and approved by the Board.

Part II of the Report reviews Lockheed's operations during the period with emphasis on the weakened near-term market for wide-bodied aircraft sales and the undercapitalized condition of the Company. In addition, the Report describes, in detail, the 1975 financial restructuring plan among Lockheed, its banks, and the Guarantee Board, which is intended to facilitate the Company's operations while the Company pursues additional measures to strengthen its equity position. This plan has not yet been implemented.

Focus then centers on the L-1011 program including market conditions, deliveries, performance of the aircraft, and manufacturing. The point is made that while production costs have remained within Company forecasts since late 1973, the near-term market for sales of wide-bodied aircraft has caused Lockheed to slow its rate of production, which, in turn, has increased the per-unit cost of L-1011's and has lengthened the period Lockheed projects it will require guaranteed borrowings.

WS-406 (Over)

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Lockheed's financial condition is reviewed in detail. The Report notes that overall operations again were profitable and Lockheed's cash position in 1974 was greatly improved over projections. However, as a result of a required accounting change, Lockheed wrote off L-1011 research and development costs which were previously carried in inventory. This resulted in a net reduction (after taxes) of $281 million at yearend 1974 in the Company's equity position.

The Report concludes with an assessment of the Government's position and expresses the Board's opinion that the best long-term solution to Lockheed's financial problems is through means of obtaining new sources of equity.

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HINGTON, D.C. 20220 TELEPHONE 964-2041

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For information on submitting tenders in the Washington, D. C. area: PHONE WO4-2604

FOR IMMEDIATE RELEASE October 9, 1975

TREASURY TO AUCTION $3.0 BILLION OF NOTES

The Treasury will auction to the public under competitive and noncompetitive bidding up to $3.0 billion of 2-year notes. The coupon rate for the notes will be determined after tenders are allotted. Additional amounts of the notes may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

The notes will be Treasury Notes of Series N-1977 dated October 31, 1975, due October 31, 1977 (CUSIP No. 912827 FA 5) with interest payable semiannually on April 30 and October 31. They will be issued in registered and bearer form in denominations of $5,000, $10,000, $100,000 and $1,000,000, and they will be available for issue in book-entry form.

Payment for the notes must be made on October 31, 1975. Payment may not be made through tax and loan accounts. Notes in bearer form will be delivered on October 31, 1975.

Tenders will be received up to 1:30 p.m., Eastern Daylight Saving time, Thursday, October 16, at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than Wednesday, October 15. Each tender must be in the amount of $5,000 or a multiple thereof, and all tenders must state the yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender. Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES" should be printed at the bottom of envelopes in which tenders are submitted.

Competitive tenders must be expressed in terms of annual yield in two decimal places, e.g., 7.11, and not in terms of a price. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the amount offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined to the nearest 1/8 of 1 percent necessary to make the average accepted price 100.000 or less. That will be the rate of interest that will be paid on all of the notes. Based on such interest rate, the price on each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield he bid. Price calculations will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final. Tenders at a yield that will produce a price less than 99.501 will not be accepted.

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The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for $500,000 or less will be accepted in full at the average price of accepted competitive tenders, which price will be 100.000 or less.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, may submit tenders for the account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of notes applied for. However, bidders who submit checks in payment on tenders submitted directly to a Federal Reserve Bank or the Treasury may find it necessary to submit full payment for the notes with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders must be completed on or before Friday, October 31, 1975, at the Federal Reserve Bank or Branch or at the Bureau of the Public Debt in cash, in other funds immediately available to the Treasury by October 31, or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such Bank or at the Treasury no later than: (1) Tuesday, October 28, 1975, if the check is drawn on a bank in the Federal Reserve District of the Bank to which the check is submitted, or the Fifth Federal Reserve District in the case of the Treasury, or (2) Thursday, October 23, 1975, if the check is drawn on a bank in another district. Checks received after the dates set forth in the preceding sentence will not be accepted unless they are payable at a Federal Reserve Bank. Where full payment is not completed on time, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of notes allotted will be subject to forfeiture to the United States.

Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 964-2041

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October 10, 1975

FOR IMMEDIATE RELEASE

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.0 billion of 13-week Treasury bills and for $3.1 billion of 26-week Treasury bills, both series to be issued on October 16, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 15, 1976			26-week bills maturing April 15, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.483	6.001%	6.20%	96.870	6.191%	6.50%
Low	98.464	6.076%	6.27%	96.831	6.268%	6.58%
Average	98.472	6.045%	6.24%	96.844	6.243%	6.55%

Tenders at the low price for the 13-week bills were allotted 76%
Tenders at the low price for the 26-week bills were allotted 43%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 43,985,000	$ 35,285,000	$ 48,205,000	$ 34,205,000
New York	3,133,945,000	2,272,745,000	3,759,055,000	2,637,120,000
Philadelphia	31,230,000	31,230,000	39,495,000	29,495,000
Cleveland	81,070,000	59,195,000	90,615,000	19,215,000
Richmond	36,105,000	31,105,000	38,260,000	13,260,000
Atlanta	54,445,000	52,290,000	25,695,000	17,865,000
Chicago	265,855,000	147,615,000	246,740,000	125,840,000
St. Louis	42,410,000	32,410,000	29,695,000	14,995,000
Minneapolis	28,915,000	28,915,000	39,490,000	39,490,000
Kansas City	49,935,000	48,895,000	17,310,000	17,010,000
Dallas	93,325,000	87,325,000	22,425,000	14,425,000
San Francisco	264,925,000	173,925,000	249,145,000	137,445,000
TOTALS	$4,126,145,000	$3,000,935,000 a/	$4,606,130,000	$3,100,365,000 b/

a/ Includes $547,165,000 noncompetitive tenders from the public.
b/ Includes $219,810,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

Department of the TREASURY NEWS
INGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 4:00 P.M. October 14, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,100,000,000 , or thereabouts, to be issued October 23, 1975, as follows:

91-day bills (to maturity date) in the amount of $3,000,000,000, or thereabouts, representing an additional amount of bills dated July 24, 1975, and to mature January 22, 1976 (CUSIP No. 912793 YQ3), originally issued in the amount of $2,901,595,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,100,000,000, or thereabouts, to be dated October 23, 1975, and to mature April 22, 1976 (CUSIP No. 912793 ZD1).

The bills will be issued for cash and in exchange for Treasury bills maturing October 23, 1975, outstanding in the amount of $5,502,095,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,817,575,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Monday, October 20, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positi with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on October 23, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 23, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this noti prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

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Contact: Bob Langdon
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FOR P.M. RELEASE

October 16, 1975

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NEW CHECK-SIGNING, ENVELOPING UNIT "WRAPS" 200 MILLIONTH CHECK

PHILADELPHIA, Oct. 16-- Treasury Department's Disbursing Center here at 5000 Wissahickon Avenue, will "wrap" its 200 millionth check today by a special enveloping process that currently is being installed throughout disbursing operations.

The new process is an innovation that began as a prototype activity in March 1973. The single system has operated continuously since that date with the highest monthly production reached in May 1975, when 12.1 million checks were "wrapped" on a 24-hour basis during the period.

The revolutionary "wrapping" machine, which in one process makes an open-window envelope, signs an already addressed check with the disbursing officer's signature, and then stuffs it into the envelope--all within one-tenth of one-second--was built to Treasury specifications by the F. L. Smithe Machine Company of Duncansville, Pennsylvania.

Specifications were developed following a 21-month study that started in 1969 and involved several manufacturing companies to determine the most effective system. Contract for building the system was awarded the Smithe firm in 1971.

This new enveloping technology has enabled Treasury to keep pace with the continuously growing volumes of Federal payments. Treasury found itself in the position of using the latest model computers to prepare the checks and then having to process them through outdated check inserting and sealing machines--outdated in the sense that they were too slow and cumbersome to operate effectively with the huge volumes confronting Treasury each month.

In addition, many problems were being experienced with maintenance of large inventories of envelopes. The longer the envelopes were stored awaiting use, the more problems mounted in processing them on the inserting and sealing machines. The check wrapping system eliminates such problems.

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A total of 14 check wrapping systems are being installed throughout Treasury's Division of Disbursement. As soon as they all become fully operational, they will save taxpayers $1.5 million yearly.

Initial outlay of $2.5 million for the new systems and the necessary site preparations will be recovered in the first 20 months of operation. Treasury has already saved $297,000 with the use of the prototype check wrapping system.

The check wrapping system is one more of a long list of innovations pioneered by Treasury's disbursing officials in efforts to do the most expeditious job possible at the least cost.

Over the past 20 years, annual check volumes have tripled, while at the same time manpower used to process these volumes has been cut to nearly half, from 2,197 in 1955 to 1,1117 in 1975. Productivity, expressed in terms of number of checks processed per employee, has increased from 96,729 checks in 1955 to 574,859 checks in 1975, or by six-fold. The new check wrapping systems will have a most favorable impact on productivity in future years.

In making the envelope,signing the check, and stuffing and sealing, the system involves paper moving speeds of 4600 inches per minute. A 54-inch diameter roll of Kraft paper weighing 500 pounds is mounted at one end of the machine. In addition, a large roll of glassine cover for the open-window envelope is mounted about midway on top of the machine.

The Kraft paper feeds continuously through the machine with the envelope format being printed, window being cut, adhesive being applied for the glassine, glassine being affixed over the window, paper being cut and scored outlining the envelope. At the same time, the check is being signed and fed into the continuously moving stream of Kraft paper, the envelope blank formed, adhesive applied for sealing the envelope, envelope sealed, and the completed envelope delivered onto a conveyor stacker. All of this takes place in one continuous operation, and at the rate of ten checks being signed and wrapped every second.

During the present Fiscal Year, Treasury will issue an estimated 670 million checks. The majority of these checks will be wrapped on the new check wrapping systems. The 670 million checks represent social security benefits; civil service and railroad retirement annuities; veterans compensation, pension, insurance, and educational benefits; tax refunds; employee salaries; etc.

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October 14, 1975

PAUL W. McCRACKEN RESIGNS AS SENIOR CONSULTANT TO TREASURY SECRETARY WILLIAM E. SIMON

Secretary of the Treasury William E. Simon today announced the resignation of Paul W. McCracken, Edmund Ezra Day University Professor at the University of Michigan, as his Senior Consultant, a part-time advisory post involving economic matters. Dr. McCracken has held the post since May 1974.

On October 1, Dr. McCracken was announced as Chairman of the new committee of distinguished economists formed by the Organization for Economic Cooperation and Development (OECD) to study the problems of noninflationary growth in the international economy.

"Dr. McCracken's work has been of invaluable assistance to me in bringing a full range of economic views forward for examination and analysis, and I am grateful to him for his dedicated efforts and his wise counsel. It is with regret that I have accepted his resignation. However, I am especially pleased at the recognition given to him by his important assignment with the new OECD Committee." Secretary Simon said.

Dr. McCracken has taught at Michigan since 1948, except for service with the Council of Economic Advisers (CEA) from 1956 to 1959 and again from 1969 to 1971 when he served as Chairman of the CEA. Before joining the Michigan faculty he worked as an economist with the Commerce Department and with the Federal Reserve Bank of Minneapolis.

A graduate of William Penn College, Oskaloosa, Iowa, Dr. McCracken received his M.A. and Ph.D. in economics from Harvard University. He is a widely known lecturer and writer of articles for professional and popular magazines and newspapers.

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Contact: H.V. Hervey
x2256
October 14, 1975

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES DETERMINATION
OF SALES AT LESS THAN FAIR VALUE
ON BIRCH 3-PLY DOORSKINS FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today a determination that birch 3-ply doorskins from Japan are being sold, or are likely to be,sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of October 15, 1975.

A Withholding of Appraisement Notice was published in the Federal Register of July 14, 1975.

Comparisons between purchase price or exporter's sales price, as appropriate, and the constructed value of the subject merchandise reveals margins.

Imports of the subject merchandise from Japan during calendar year 1974 were valued at roughly $7.6 million.

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October 14, 1975

JOHN LINTNER OF HARVARD NAMED SENIOR CONSULTANT
BY TREASURY SECRETARY WILLIAM E. SIMON

Secretary of the Treasury William E. Simon announced today ıe appointment of John Lintner of Belmont, Massachusetts, a ırvard University Professor, as his Senior Consultant, a part-.me advisory post involving economic matters. He succeeds ıul W. McCracken who is resigning from this position and will ɜrve as Chairman of the new committee of distinguished economists ɔrmed by the Organization for Economic Cooperation and Development)ECD) to study the problems of noninflationary growth in the ıternational economy.

As Senior Consultant, Professor Lintner will conduct meetings : economists from the private sector for in-depth discussions in :der to give the Secretary their analysis of current economic ;sues. He will also be available to the Secretary for consultation.

Since 1964, Professor Lintner has been George Gund Professor : Economics and Business Administration at Harvard University. :om 1945-1964 he was successively Assistant Professor, Associate :ofessor, and Professor at the Harvard Business School.

Professor Lintner is a Fellow of the American Academy of Arts ıd Sciences and the Econometric Society, and was President (1974) ' the American Finance Association. He is the author of books ıd articles, including most recently "Inflation and Security :turns," Journal of Finance, May 1975.

Professor Lintner has been a Trustee of the Cambridge Savings ınk since 1950, and a Director of the U.S. and Foreign Securities ɪrporation since 1967. Earlier this year he became a Director of ıe Chase of Boston Mutual Funds. He has also taught in executive 'ograms and consulted at various times with business corporations, .nancial institutions, foundations, trade associations, and ɪvernment agencies (including U.S. Treasury Department, Council : Economic Advisors, Bureau of the Census and Federal Home Loan .nk Board).

Professor is married to the former Eleanor Hodges. They have 'o sons and a daughter: John H., Nancy C. and Allan.

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October 14, 1975

JOHN J. ARENA
NAMED COUNSELOR TO THE SECRETARY OF THE TREASURY

Treasury Secretary William E. Simon today announced the appointment of John J. Arena as Counselor to the Secretary of the Treasury. Mr. Arena's primary responsibilities in this position will be assisting the Secretary in his role as Chairman of the Economic Policy Board.

Until accepting his post at the Treasury, Mr. Arena was Vice President and Senior Partner with Loomis, Sayles and Company, Incorporated, where he was employed since 1967. From 1963 to 1967, Mr. Arena was with the Federal Reserve Bank of Boston as a Research Economist. He was Senior Staff Economist, Council of Economic Advisers, from July 1965 to June 1966. Mr. Arena taught at Yale University from July 1962 to June 1963, and at Harvard University from July 1963 to June 1967.

Born in Lynn, Massachusetts on May 25, 1937, Mr. Arena attended Yale Univeristy where he received his B.A., M.A. and Ph.D. degrees in economics.

Mr. Arena is a member of several professional associations including The National Association of Business Economists, The American Economic Association, and The American Statistical Association and has published many business and professional articles. He is married to the former Rosemarie Pitzi of Lynn, Massachusetts and has two children.

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deral financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries 202-964-2615

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FOR IMMEDIATE RELEASE October 14, 1975

SUMMARY OF LENDING ACTIVITY

September 16 - September 30, 1975

Federal Financing Bank lending activity for the period September 16 through September 30, 1975 was announced as follows by Roland H. Cook, Secretary:

Amtrak, the National Railroad Passenger Corporation, made two drawings against its line of credit with the FFB:

Date	Amount	Interest Rate	Maturity
9/17	$10,000,000	6.791%	12/1/75
9/30	10,000,000	6.896%	12/1/75

On September 16, the Bank advanced $1.7 million to Amtrak at an interest rate of 7.92% for a December 31, 1988 maturity. The funds were used to finance the purchase of four locomotives.

On September 30, Amtrak borrowed $280 million from the Bank to pay off maturing loans of an equivalent amount:

Amount	Interest Rate	Maturity
$150,000,000	8.060%	10/1/76
130,000,000	6.896%	12/30/75

The Bank made the following loans to the Government of the Philippines:

Date	Amount	Interest Rate	Maturity
9/16	$1,500,000	8.685%	12/31/81
9/30	1,500,000	8.524%	12/31/81

The loans are guaranteed by the Department of Defense under the Foreign Military Sales Act.

On September 18, the Department of Health, Education, and Welfare borrowed $2,288,000 from the Bank under the Medical Facilities Direct Loan Program. The interest rate is 8.785%. The loan matures July 1, 1999.

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The FFB made the following loans to utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Interest Rate	Maturity
9/19	Associated Electric Coop Inc. (Missouri)	$5,000,000	8.400%	9/19/77
9/19	South Mississippi Electric Power Association	2,550,000	8.400%	9/26/77
9/22	Western Farmers Electric Coop (Oklahoma)	9,000,000	8.446%	9/22/82
9/24	Byron Telephone Co. (Michigan)	179,912	8.635%	12/31/09
9/26	St. Joseph Telephone Co. (Florida)	599,800	8.230%	10/ 7/77
9/26	Boone County Telephone Co. (Arkansas)	530,000	8.616%	12/31/09
9/26	Cooperative Power Association (Minnesota)	3,477,000	8.616%	12/31/09
9/30	Taconic Telephone Co. (New York)	6,590,250	8.720%	12/31/09
9/30	Oglethorpe Electric Membership Corp. (Georgia)	6,997,000	8.720%	12/31/09

Interest payments are made quarterly on the above REA loans.

On September 24, the Bank purchased $3,360,000 of debentures from the following Small Business Investment Companies:

Company	Amount	Interest Rate	Maturity
Small Business Assistance Corp. (Florida)	$ 180,000	8.405%	9/1/78
First Capital Corp. (Texas)	150,000	8.445%	9/1/80
Lowcountry Investment Corp. (South Carolina)	1,000,000	8.585%	9/1/85
Market Capital Corp. (Florida)	250,000	8.585%	9/1/85

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Company	Amount	Interest Rate	Maturity
First Captial Corp. (Texas)	$ 150,000	8.585%	9/1/85
Mid-Atlantic Fund Inc. (New York)	500,000	8.585%	9/1/85
New Mexico Capital Corp. (New Mexico)	530,000	8.585%	9/1/85
North Central Capital Corp. (Illinois)	100,000	8.585%	9/1/85
North Star Ventures Inc. (Minnesota)	500,000	8.585%	9/1/85

The SBIC debentures are guaranteed by the Small Business Administration.

On September 24, the US Railway Association borrowed $2 million against its line of credit with the FFB. The interest rate is 6.676%. The loan matures November 24, 1975.

On September 30, the Tennessee Valley Authority borrowed $260 million from the Bank at an interest rate of 6.462%. The loan matures October 31, 1975. Proceeds from the loan were used to pay off $225 million of loans maturing with the FFB and to provide $35 million new money for TVA.

On September 30, the Bank advanced $6.5 million at 8.75% interest to the Maumelle Land Development Inc., a "new community" in Arkansas. This loan is guaranteed by the Department of Housing and Urban Development and matures December 1, 1991.

Federal Financing Bank loans outstanding on September 30, 1975 totalled $15.2 billion.

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REMARKS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE WASHINGTON WORLD LAW CONFERENCE
WASHINGTON, D. C., OCTOBER 14, 1975

LAST MONTH I HAD THE HONOR OF WELCOMING TO WASHINGTON FINANCE MINISTERS FROM MORE THAN 125 NATIONS FOR THE ANNUAL MEETING OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK GROUP. SUBSTANTIAL PROGRESS WAS ACHIEVED IN THOSE MEETINGS TOWARD RESOLVING SOME OF THE MOST DIFFICULT FINANCIAL ISSUES OF RECENT YEARS.

TODAY, AS I WELCOME YOU TO WASHINGTON, IT IS MY HOPE THAT THIS GATHERING OF DISTINGUISHED LAWYERS AND JURISTS FROM AROUND THE WORLD WILL MAKE EQUAL PROGRESS IN FURTHERING THE AIM OF WORLD PEACE THROUGH LAW.

IN EXTENDING YOUR KIND INVITATION TO ME TO APPEAR HERE TODAY, CHARLIE RHYNE ASKED THAT I SPEAK TO YOU ON THE SUBJECT OF INTERNATIONAL ECONOMICS AND THE LAW. THAT IS A FORMIDABLE REQUEST, AND I ACCEPT ONLY ON THE UNDERSTANDING THAT I WILL

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CONFINE MYSELF TO REFLECTIONS ON MY OWN EXPERIENCE IN THE AREA AS A FINANCIAL PRACTITIONER, AND WILL NOT ATTEMPT TO TALK TO YOU AS A LEGAL SCHOLAR.

FROM MY PERSPECTIVE, THE MOST STRIKING CONTRIBUTION MADE BY THE LAW TO INTERNATIONAL ECONOMIC DEVELOPMENT SINCE WORLD WAR II HAS BEEN TO PROVIDE THE FRAMEWORK FOR A STABLE, ORDERLY SYSTEM WITHIN WHICH THE FORCES OF THE ECONOMIC MARKETPLACE COULD WORK MORE SMOOTHLY AND EFFICIENTLY. THIS WAS A VISION SHARED BY MANY WORLD LEADERS AS THEY EMERGED FROM THE WRECKAGE OF THE WAR AND THE YEARS OF WORLDWIDE ECONOMIC STAGNATION AND DISORDER WHICH HAD PRECEDED THE WAR. AND TO A REMARKABLE DEGREE, THOSE LEADERS SUCCEEDED IN CONVERTING THEIR DREAMS INTO REALITY.

I AM THINKING IN PARTICULAR OF THE BRETTON WOODS AGREEMENTS AND THE INSTITUTIONS ESTABLISHED BY THEM -- THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK --

WHICH HAVE DETERMINED MANY OF THE RULES OF CONDUCT FOR ECONOMIC AND FINANCIAL AFFAIRS OF THE FREE WORLD SINCE THE WAR. THE ARTICLES OF AGREEMENT FOR THE IMF RECORDED THE INTENTION OF MEMBER NATIONS TO AVOID RECOURSE TO "BEGGAR THY NEIGHBOR" PRACTICES, SUCH AS COMPETITIVE DEPRECIATION AND RESTRICTIONS ON CURRENT ACCOUNT TRANSACTIONS IN ORDER TO ACHIEVE COMPETITIVE ADVANTAGE. THE ARTICLES OF AGREEMENT OF THE WORLD BANK EVIDENCED THAT THE MORE ADVANCED NATIONS WERE WILLING TO COMMIT SOME PORTION OF THEIR RESOURCES TO ASSIST THE LESS DEVELOPED NATIONS SO THAT ALL MIGHT SHARE IN GREATER WORLD PROSPERITY. THIS COMMITMENT IS THE MORE MEMORABLE IN THAT IT WAS MADE FREELY.

ALTHOUGH IT CAME INTO FORCE SOMEWHAT LATER, THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) WAS AN INTEGRAL PART OF THIS VISION OF THE INTERNATIONAL POLICY MAKERS OF WORLD WAR II AND THE IMMEDIATE POSTWAR PERIOD. THE GENERAL

AGREEMENT MARKED A MAJOR STEP TOWARD A DIFFICULT BUT CONTINUING DEFINITION OF THE RULES BY WHICH NATIONS WOULD TRADE, AND PERHAPS EVEN MORE IMPORTANTLY, PROVIDED THE FRAMEWORK FOR SEVERAL ROUNDS OF TRADE NEGOTIATIONS WHICH HELPED MOVE THE FREE WORLD FURTHER TOWARD TRADE LIBERALIZATION.

THE ORGANIZATION FOR EUROPEAN ECONOMIC COOPERATION, AND ITS SUCCESSOR, THE ORGANIZATION FOR ECONOMIC COOPERATION AND DEVELOPMENT, HAVE ALSO ESTABLISHED MANY VALUABLE RULES FOR THE CONDUCT OF INTERNATIONAL ECONOMIC AFFAIRS. THE OEEC WAS INSTRUMENTAL IN DEVELOPING THE RULES FOR LIBERALIZATION OF TRADE AND PAYMENTS AMONG THE EUROPEAN NATIONS AFTER THE DESTRUCTION OF WAR. A UNIQUE FUNCTION OF THIS ORGANIZATION, AND THE SUCCESSOR OECD, WAS TO ESTABLISH RULES FOR THE LIBERALIZATION OF CAPITAL MOVEMENTS AMONG THE MEMBER COUNTRIES. ONE OF THE GREAT WEAKNESSES IN THE INTERNATIONAL ECONOMY TODAY THAT WE HAVE NO SUCH RULES WITH APPLICATION WORLD-WIDE.

The experience of the postwar period suggests strongly that extension of the rule of law into the international economic arena has been highly beneficial. We have avoided reliving the experiences of the 1930s. We have accepted a responsibility for the economic welfare of those beyond our borders to an extent unknown in the history of mankind, and, I believe that we all enjoy a better world for having done so. By contributing to an unparalleled prosperity, our economic rules have also improved the environment for achieving a more peaceful world.

I believe that there is general recognition of these benefits. I believe, too, that we should continue seeking more effective ways to apply the rule of law to our internationa economic relations.

Of course, lawyers and economic policy makers do not have identical perspectives. If we are to cooperate in

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FURTHER EXTENDING THE RULE OF LAW IN THE FIELD OF INTERNATIONAL ECONOMICS, WE MUST EACH BE AWARE OF THE OTHERS' SPECIAL INSIGHTS AND EXPERIENCE.

CLEARLY, LEGAL AND ECONOMIC POLICY MAKERS AGREE ON THE OVERRIDING GOALS FOR THE WORLD ECONOMY. WE BOTH AIM AT CREATING AN EXPANDING WORLD ECONOMY WHOSE BENEFITS MAY BE ENJOYED BY ALL NATIONS. WE DEPLORE AND HOPE TO ERADICATE THE POVERTY STILL SO PREVALENT. AND WE HOPE THAT THE INITIATIVE OF NATIONS AS WELL AS INDIVIDUALS WILL BE REWARDED.

I ALSO BELIEVE WE SHARE IN COMMON AN APPRECIATION OF THE FACT THAT IN THE LAST DECADES THE RIGID BIPOLAR WORLD OF THE 1950S -- WITH TWO CAMPS OPPOSING EACH OTHER IN A COLD WAR -- HAS CHANGED TO A WORLD WHERE THERE ARE MORE CENTERS OF POLITICAL, MILITARY AND ECONOMIC POWER. WE HAVE CREATED USEFUL INSTITUTIONS IN SOME AREAS, BUT IN OTHER AREAS, IT IS EXTREMELY DIFFICULT TO GET CONTENDING PARTIES

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TO NEGOTIATE, OR TO ATTEMPT IN OTHER WAYS TO RESOLVE THEIR DIFFERENCES. RESORTING TO INTERNATIONAL COURTS FOR THIRD PARTY DECISION -- AS WOULD BE THE CASE IN A DOMESTIC CONTEST -- IS NOT ALWAYS AN EFFECTIVE OR REALISTIC ALTERNATIVE. SOME NATIONS APPEAR TO BELIEVE THEY CAN REMAIN FREE TO EXERCISE THEIR SOVEREIGNTY WITHOUT REGARD FOR OTHERS AND WITHOUT CONCERN FOR THE WORLD ECONOMY AS A WHOLE. IN SUCH CIRCUMSTANCES, IT IS TO BE HOPED THAT WHERE THE RULE OF LAW DOES NOT APPLY, A SPIRIT OF COOPERATION AND A RECOGNITION OF INTERDEPENDENCE WILL PREVAIL.

LAWYERS AND ECONOMISTS WOULD ALSO AGREE THAT THERE IS A LONG WAY STILL TO GO FROM PRESENT WORLD ECONOMIC CONDITIONS TO THE GOAL OF AN ABUNDANT WORLD ECONOMY FOR ALL. RECENT PROGRESS TOWARDS THIS GOAL HAS BEEN SLOWED PERCEPTIBLY BY AN

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UNPRECEDENTED WORLDWIDE INFLATION, BY A HARSH RECESSION, AND NOTABLY BY THE BRUTALLY SHARP AND UNANTICIPATED INCREASES IN THE COST OF ENERGY, WHICH GREATLY EXACERBATED THESE PROBLEMS. IT IS A SAD FACT THAT THE ECONOMIC PROSPECTS OF THE DEVELOPING NATIONS HAVE BEEN PARTICULARLY HARD HIT BY THESE ECONOMIC DIFFICULTIES. THE MOST URGENT ECONOMIC TASK BEFORE US IS TO WORK TOGETHER IN RESTORING A BROADLY BASED, FORWARD MOMENTUM TO THE WORLD ECONOMY WHICH WILL PROVIDE THE FOUNDATION FOR SUSTAINED, NON-INFLATIONARY GROWTH IN EVERY NATION.

THE UNITED STATES IS ACUTELY AWARE THAT ITS OWN ECONOMIC POLICIES BEAR HEAVILY NOT ONLY UPON THE LIVELIHOODS OF OUR OWN CITIZENS BUT UPON THOSE IN OTHER NATIONS AS WELL. WHILE OUR ECONOMY IS NO LONGER AS PREDOMINANT IN THE WORLD ECONOMY AS IT ONCE WAS, OUR GROSS NATIONAL PRODUCT STILL AMOUNTS TO OVER ONE-QUARTER OF THE WORLD TOTAL AND WE REPRESENT THE WORLD'S LARGEST IMPORT MARKET. THEREFORE, THE SINGLE MOST

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IMPORTANT CONTRIBUTION WE CAN MAKE TO THE HEALTH OF THE WORLD ECONOMY IS TO ACHIEVE DURABLE, NON-INFLATIONARY GROWTH WITHIN OUR OWN BORDERS.

FORTUNATELY, THERE IS CLEAR AND ABUNDANT EVIDENCE THAT A SOLID ECONOMIC RECOVERY IS NOW UNDERWAY IN THE UNITED STATES. WE BELIEVE THAT IF PROPERLY MANAGED, THAT RECOVERY CAN BE SUSTAINED AND DURABLE. MY GOVERNMENT IS NOW PROVIDING STRONG SUPPORT FOR THE FORCES OF RECOVERY. I MUST CAUTION YOU, HOWEVER, THAT WE ARE NOT PREPARED TO ACCEPT THE SUGGESTIONS OF SOME OF OUR FRIENDS, EVEN THOUGH WELL-INTENTIONED, THAT WE SHARPLY INCREASE GOVERNMENTAL STIMULUS OF THE ECONOMY IN ORDER TO ACCELERATE THE RECOVERY AND TO IMPROVE THE ECONOMIC OUTLOOK AMONG OUR TRADING PARTNERS. OUR EXPERIENCE FROM PAST YEARS CONVINCES US THAT EXCESSIVE STIMULATION WOULD ONLY REIGNITE INFLATION WHICH IN TURN COULD LEAD THE NATION INTO A NEW AND DEEPER RECESSION. THAT IS WHY IT IS SO IMPORTANT

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THAT THIS RECOVERY BE PROPERLY MANAGED. LET US RECOGNIZE THAT THE MOST IMPORTANT STEPS TOWARD SOLVING THE ECONOMIC PROBLEMS OF EACH NATION MUST BEGIN AT HOME. BUT AT THE SAME TIME, OUR NATIONS MUST WORK TOGETHER IN A SPIRIT OF COOPERATION AND MUTUAL UNDERSTANDING. THE ECONOMIC SUMMIT CONFERENCE THAT WILL TAKE PLACE IN FRANCE NEXT MONTH, DRAWING TOGETHER THE LEADERS OF A NUMBER OF THE MOST INDUSTRIALIZED NATIONS, IS AN EXCELLENT EXAMPLE OF THE CLOSE CONSULTATION THAT MUST TAKE PLACE AMONG OUR COUNTRIES -- NOT ONLY ON ECONOMIC QUESTIONS BUT ON THE BROADER POLITICAL AND SOCIAL QUESTIONS AS WEL

WHILE THERE IS, THEN, BROAD AGREEMENT BETWEEN US ON FUTURE GOALS, WE MAY DIFFER ON THE APPROACH WE SHOULD TAKE TOWARD THEIR ACHIEVEMENT. FOR EXAMPLE, I WOULD VIEW WITH SKEPTICISM ANY SUGGESTIONS THAT WE SHOULD CREATE A SUPRA-NATIONAL LEGAL AUTHORITY TO REGULATE INTERNATIONAL BUSINESS CONCERNS SO THAT THEY WILL SERVE AS ENGINES OF DEVELOPMENT

AND THAT WE SHOULD NEGOTIATE COMPLEX MULTI-LATERAL TREATIES WHICH SEEK TO LEGISLATE US INTO GENERAL PROSPERITY.

BROAD-RANGING PROPOSALS OF THIS KIND UNDERSTANDABLY ATTRACT SOME ADVOCATES WHEN THE WORLD ECONOMY IS IN RECESSION. I WOULD URGE, HOWEVER, THAT SUCH PROPOSALS BE CONSIDERED WITH PARTICULAR CARE. IF THEY ARE INTENDED ONLY TO MEET THE PROBLEMS OF THE RECESSION, THEN THERE WILL BE DIMINISHED NEED FOR THEM AS THE WORLD ECONOMY GRADUALLY RECOVERS. IT WOULD NOT BE IN THE INTEREST OF EITHER INDUSTRIALIZED OR DEVELOPING COUNTRIES TO SOLVE THE PROBLEMS OF RECESSION BY CREATING INFLEXIBLE RULES THAT IGNORE THE MARKET FORCES WHICH THEMSELVES WILL

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STIMULATE RECOVERY, OR WHICH WILL ADD TO INFLATIONARY PRESSURES AND IMPAIR THE STRENGTH OF THE RECOVERY ITSELF.

I FIRMLY BELIEVE THAT THE BEST WAY TO BRIDGE THE GAP BETWEEN HOPE AND REALITY IS TO CREATE A STABLE AND OPEN ECONOMIC SYSTEM WHERE TRADE AND INVESTMENT CAN FLOW EFFICIENTLY AND WITHOUT RESTRICTION. IT IS THAT VIEW WHICH NOW SHAPES UNITED STATES POLICY TOWARD FOREIGN INVESTMENT IN OUR COUNTRY. SOME IN MY COUNTRY HAVE RAISED QUESTIONS ABOUT FOREIGN INVESTMENT, FEARING CONTROL OR DOMINATION BY FOREIGN COUNTRIES, ESPECIALLY OIL EXPORTING NATIONS. MY GOVERNMENT HAS THOROUGHLY INVESTIGATED THE BASIS FOR THOSE CONCERNS AND HAS CONCLUDED THAT A POLICY OF WELCOMING FOREIGN INVESTMENTS, CONSISTENT WITH OUR NATION SECURITY, IS NOT ONLY IN OUR OWN BEST INTEREST BUT THE INTEREST OF ALL NATIONS.

AS WE SEEK TO ACHIEVE AND MAINTAIN A STABLE AND OPEN ECONOMIC SYSTEM, WE MUST PAY PARTICULAR ATTENTION TO THE PRESSIN

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AND URGENT TASK OF ASSISTING THE DEVELOPING COUNTRIES. WE ARE ENGAGED WITH THESE NATIONS NOW IN SERIOUS DISCUSSIONS AND NEGOTIATIONS TO WORK OUT POLICIES AND MEASURES WHICH WILL HELP THEM MOVE TOWARD A BETTER AND MORE PROSPEROUS WAY OF LIFE. TO THIS END SECRETARY KISSINGER AND I HAVE RECENTLY MADE MAJOR PROPOSALS FOR A DEVELOPMENT SECURITY FACILITY IN THE IMF, TO CUSHION SHORTFALLS IN EXPORT EARNINGS OF DEVELOPING COUNTRIES, AND A SUBSTANTIAL INCREASE IN THE CAPITAL OF THE INTERNATIONAL FINANCE CORPORATION. WE ARE MOVING AHEAD TOWARD CREATION OF A TRUST FUND UNDER IMF AUSPICES TO PROVIDE HIGHLY CONCESSIONAL BALANCE OF PAYMENTS FINANCING FOR THE POOREST DEVELOPING COUNTRIES. WE BELIEVE THAT OUR ECONOMIC POLICIES TOWARD DEVELOPING COUNTRIES, INCLUDING THE RICHEST AS WELL AS THE POOREST OF THESE NATIONS, CAN BE FAIRLY CHARACTERIZED AS REALISTIC AND FORTHCOMING.

I BELIEVE THAT SPECIFIC PROPOSALS FOR RESTRUCTURING

ECONOMIC RELATIONS SHOULD BE EVALUATED IN LIGHT OF THE NEED TO MAINTAIN AND ADVANCE EFFICIENT MARKETS. FOR THIS REASON THE UNITED STATES HAS OPPOSED PROPOSALS WHICH WOULD "INDEX" EXPORT PRICES OF PARTICULAR COMMODITIES

TO THE PRICES OF COMMODITIES IMPORTED BY CERTAIN COUNTRIES. INDEXING WOULD SIMPLY DISTORT BASIC MARKET TRENDS. AN INTERNATIONAL MARKET OF THE KIND WE SEEK CANNOT FUNCTION EFFECTIVELY WITHOUT INTERNATIONALLY-AGREED

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RULES THAT HELP REMOVE BARRIERS TO THE FREE FLOW OF CAPITAL, GOODS, TECHNOLOGY, AND SERVICES.

IT IS HERE THAT LAWYERS CAN BE PARTICULARLY HELPFUL, IN WORKING WITH THE UNITED STATES AND OTHER NATIONS AS WE PROCEED ON AN ISSUE-BY-ISSUE AND CASE-BY-CASE BASIS TO BUILD A VIABLE LEGAL FRAMEWORK FOR AN OPEN ECONOMIC SYSTEM. TO STRENGTHEN THE FOUNDATIONS OF AN OPEN ECONOMY REQUIRES MORE THAN A PASSIVE OR LAISSEZ-FAIRE ATTITUDE TOWARD NEW PROBLEMS AND CHANGING PRIORITIES. NONE OF US CAN AFFORD TO REST ON OUR OARS, OR WORLD EVENTS MAY FLOW BEYOND OUR REACH. WE MUST CONTINUE TO PRESS FORWARD, AND THE UNITED STATES IS SEEKING TO DO JUST THAT IN A NUMBER OF IMPORTANT WAYS:

-- WE SUPPORT THE LIBERALIZATION OF WORLD TRADE AND ARE CURRENTLY CONCENTRATING OUR EFFORTS ON THE MULTI-LATERAL TRADE NEGOTIATIONS IN GENEVA.

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-- AS I MENTIONED EARLIER, WE HAVE PROPOSED AND ARE NOW REFINING A DEVELOPMENT SECURITY FACILITY UNDER IMF AUSPICES WHICH WILL HELP DEVELOPING COUNTRIES FINANCE SHORTFALLS IN EXPORT EARNINGS.

-- WE ARE WORKING TOWARD THE CREATION OF A TRUST FUND UNDER IMF AUSPICES WHICH WILL HELP MEET THE FINANCING NEEDS OF THE DEVELOPING COUNTRIES MOST SERIOUSLY AFFECTED BY THE CURRENT ECONOMIC CONDITIONS.

-- WE HAVE REACHED AGREEMENT WITH OTHER OECD COUNTRIES TO ESTABLISH A FINANCIAL SUPPORT FUND WHICH WOULD PROVIDE A BORROWING FACILITY TO MEET BALANCE OF PAYMENTS CRISES. THIS IS ESSENTIALLY AN INSURANCE POLICY TO BE USED ONLY WHERE OTHER RESOURCES OF THE INTERNATIONAL MARKET ARE NOT AVAILABLE ON REASONABLE TERMS.

-- WE ARE COMMITTED TO WORKING WITH OTHERS TO ACHIEVE AN ORDERLY AND CONSTRUCTIVE EVOLUTION OF INTERNATIONAL MONETARY

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ARRANGEMENTS. THE MEETINGS OF THE IMF AND WORLD BANK GROUP REPRESENTED MAJOR PROGRESS IN THAT REGARD AND WE EXPECT TO COMPLETE A PACKAGE OF MONETARY REFORMS IN A MEETING OF THE INTERIM COMMITTEE THIS JANUARY.

-- WE ARE PRESSING FOR PASSAGE OF LEGISLATION TO INCREASE THE RESOURCES OF THE INTER-AMERICAN DEVELOPMENT BANK AND THE INTERNATIONAL FINANCE CORPORATION.

-- WE ARE NEGOTIATING FOR INCLUSION IN THE VOLUNTARY GUIDELINES FOR MULTINATIONAL ENTERPRISES BEING ESTABLISHED BY THE MEMBER COUNTRIES OF THE OECD A PROVISION ON THE QUESTION OF ILLICIT PAYMENTS.

-- AND WE ARE CURRENTLY ENGAGED IN IMPLEMENTING SECRETARY KISSINGER'S PROPOSAL FOR AN INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT.

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In conclusion, I would only note that there is much work to be done to achieve an expanding and efficient world economy. Both lawyers and economists have an extremely difficult task before them, and both professions must work in close cooperation to achieve their common goal. Both must draw heavily on the insights of the other. If you will permit special pleading, let me urge you, as lawyers, to pay special attention to the need for developing an economic system in which market forces can play the dynamic role. It is in this way that we can together reach our goal of an abundant and prosperous world economy.

* * *

e Department of the TREASURY NEWS
HINGTON, D.C. 20220 TELEPHONE 964-2041

Contact: Bob Langdon
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FOR P.M. RELEASE

October 16, 1975

NEW CHECK-SIGNING, ENVELOPING UNIT "WRAPS" 200 MILLIONTH CHECK

PHILADELPHIA, Oct. 16-- Treasury Department's Disbursing Center here at 5000 Wissahickon Avenue, will "wrap" its 200 millionth check today by a special enveloping process that currently is being installed throughout disbursing operations.

The new process is an innovation that began as a prototype activity in March 1973. The single system has operated continuously since that date with the highest monthly production reached in May 1975, when 12.1 million checks were "wrapped" on a 24-hour basis during the period.

The revolutionary "wrapping" machine, which in one process makes an open-window envelope, signs an already addressed check with the disbursing officer's signature, and then stuffs it into the envelope--all within one-tenth of one-second--was built to Treasury specifications by the F. L. Smithe Machine Company of Duncansville, Pennsylvania.

Specifications were developed following a 21-month study that started in 1969 and involved several manufacturing companies to determine the most effective system. Contract for building the system was awarded the Smithe firm in 1971.

This new enveloping technology has enabled Treasury to keep pace with the continuously growing volumes of Federal payments. Treasury found itself in the position of using the latest model computers to prepare the checks and then having to process them through outdated check inserting and sealing machines--outdated in the sense that they were too slow and cumbersome to operate effectively with the huge volumes confronting Treasury each month.

In addition, many problems were being experienced with maintenance of large inventories of envelopes. The longer the envelopes were stored awaiting use, the more problems mounted in processing them on the inserting and sealing machines. The check wrapping system eliminates such problems.

A total of 14 check wrapping systems are being installed throughout Treasury's Division of Disbursement. As soon as they all become fully operational, they will save taxpayers $1.5 million yearly.

Initial outlay of $2.5 million for the new systems and the necessary site preparations will be recovered in the first 20 months of operation. Treasury has already saved $297,000 with the use of the prototype check wrapping system.

The check wrapping system is one more of a long list of innovations pioneered by Treasury's disbursing officials in efforts to do the most expeditious job possible at the least cost.

Over the past 20 years, annual check volumes have tripled, while at the same time manpower used to process these volumes has been cut to nearly half, from 2,197 in 1955 to 1,1117 in 1975. Productivity, expressed in terms of number of checks processed per employee, has increased from 96,729 checks in 1955 to 574,859 checks in 1975, or by six-fold. The new check wrapping systems will have a most favorable impact on productivity in future years.

In making the envelope,signing the check, and stuffing and sealing, the system involves paper moving speeds of 4600 inches per minute. A 54-inch diameter roll of Kraft paper weighing 500 pounds is mounted at one end of the machine. In addition, a large roll of glassine cover for the open-window envelope is mounted about midway on top of the machine.

The Kraft paper feeds continuously through the machine with the envelope format being printed, window being cut, adhesive being applied for the glassine, glassine being affixed over the window, paper being cut and scored outlining the envelope. At the same time, the check is being signed and fed into the continuously moving stream of Kraft paper, the envelope blank formed, adhesive applied for sealing the envelope, envelope sealed, and the completed envelope delivered onto a conveyor stacker. All of this takes place in one continuous operation, and at the rate of ten checks being signed and wrapped every second.

During the present Fiscal Year, Treasury will issue an estimated 670 million checks. The majority of these checks will be wrapped on the new check wrapping systems. The 670 million checks represent social security benefits; civil service and railroad retirement annuities; veterans compensation, pension, insurance, and educational benefits; tax refunds; employee salaries; etc.

WS-407

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he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041

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CONTACT: Nathaniel Smith
964-2425

FOR IMMEDIATE RELEASE

October 17, 1975

SECRETARY SIMON PRESENTS
TREASURY'S ANNUAL AWARDS

Treasury Secretary William E. Simon recognized nearly two hundred Treasury employees today for achievements and contributions at the annual award ceremony in Washington.

In presenting the awards the Secretary acknowledged "the noteworthy accomplishments" being made by Treasury employees throughout the Department "to get Treasury's work done more effectively and efficiently. Their efforts have resulted in first-year savings of more than $12 million," he told colleagues assembled in the Departmental Auditorium.

Treasury's Exceptional Service Award went to 16 employees. The award is conferred on those who distinguish themselves by exceptional service within or beyond their required duties, and is the highest award which may be recommended for presentation by the Secretary.

The Meritorious Service Award, the second highest Treasury recognition, went to 24 employees.

Among the 68 Special Achievement Awards and 5 Group Achievement Awards was recognition of U.S. Secret Service agents who investigated and suppressed $2.5 million in counterfeit food stamps in the State of California. The highest individual monetary award--$1500--went to John R. Doss, chief, collection division, of the Internal Revenue Service in Portland, Oregon, for developing and implementing revised procedures for compliance with form filing requirements by welfare recipients. Eight other Treasury employees received $1,000 or more for outstanding suggestions or exemplary services which resulted in significant monetary savings, increased efficiency or improvement in Government operations.

For longevity in the career Federal service, 12 persons were recognized for 40 years' service.

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(Over)

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Other honors included:

-- 20 supervisors for notable achievements in encouraging efficiency and economy among their employees.

-- The Bureau of Engraving and Printing and the Bureau of the Mint repeated their last year's accomplishments garnering the Secretary's incentive awards for performance and suggestions, respectively. The Comptroller of the Currency and Office of the Secretary earned the Secretary's award for safety.

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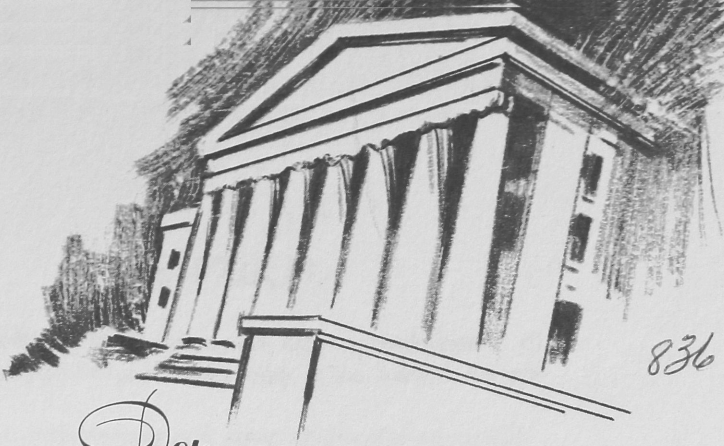

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Department of the Treasury

AMERICAN REVOLUTION BICENTENNIAL 1776-1976 ™

975 annual awards ceremony

FOREWORD

It is with considerable pride that I offer my congratulations to all the Treasury employees being honored today at the Annual Awards Ceremony.

The suggestions, achievements and other noteworthy accomplishments described in this program are representative of the overall effort being made by employees throughout the Department to get Treasury's work done more effectively and efficiently. Their efforts have resulted in first-year savings of more than 2 million dollars as well as untold intangible benefits that have been recognized under our Incentive Awards Program this past fiscal year.

My congratulations to you whose names appear with honor in this program and a warm welcome to your families and friends who are sharing this occasion with you.

William E. Simon

Secretary of the Treasury.

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1975
PROGRAM

ANNUAL AWARDS CEREMONY
DEPARTMENT OF THE TREASURY

Music................................U.S. Marine Corps Band
Presentation of Colors............Joint Armed Forces Color Detail
The National Anthem..................U.S. Marine Corps Band
Introductions................................Warren F. Brecht
Assistant Secretary (Administration)
Remarks.................................William E. Simon
Secretary of the Treasury
Announcing Award Recipients.................Esther C. Lawton
Acting Director of Personnel
Presentation of Awards......................William E. Simon
Secretary of the Treasury

Employee Suggestions and Services
Suggester-of-the-Year
Awards to Supervisors
Recognition for Special Government-Wide Programs
Career Service Recognition (Washington, D.C. area)
The Secretary's Awards to Bureaus
- Performance Awards Program
- Suggestion Awards Program
- Safety Program

Meritorious Service Awards
Exceptional Service Awards
Alexander Hamilton Awards

Musical Selection.....................U.S. Marine Corps Band

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1975

ANNUAL AWARDS CEREMONY

DEPARTMENT OF THE TREASURY

TREASURY AWARDS COMMITTEE

Acting Chairman
Esther C. Lawton
Acting Director of Personnel

Members
Donald L. E. Ritger
Deputy General Counsel

James B. Clawson
Deputy Assistant Secretary
(Enforcement, Operations and Tariff Affairs)

David Mosso
Fiscal Assistant Secretary

John A. Hurley
Assistant Commissioner (Administration)
U.S. Customs Service

Joseph T. Davis
Assistant Commissioner (Administration)
Internal Revenue Service

Chadwick B. Pierce
Assistant Director for Administrative Support
Bureau of the Mint

Stanley N. Dunn
Chief, Office of Industrial Relations
Bureau of Engraving and Printing

Stanley D. Allen
Chief, Management Analysis Division
Office of Management and Organization

EMPLOYEE SUGGESTIONS AND SERVICES

Recognition by the Secretary of outstanding suggestions or exemplary services which served to effect significant monetary savings, increased efficiency, or improvements in Government operations.

CAROL ARNOLD (Retired), Formerly Tax Law Specialist, Individual Tax Division, Employment Tax and Administrative Provisions Branch, Internal Revenue Service

For continued superior performance and recognized expertise in the employment tax laws, specifically as they relate to insurance companies. Special Achievement Award—$586.

EDWARD J. BANAS, Senior Coordinator, Intelligence Division, Internal Revenue Service

For outstanding accomplishment in his own position and as Acting Operations Branch Manager. Special Achievement Award—$800.

PHILIP E. BENNET, Technical Advisor, Office of Assistant Commissioner (Technical), Internal Revenue Service

For continued superior performance, specifically during the time he was Acting Principal Technical Advisor. Special Achievement Award—$500.

ROBERT BLOOM, First Deputy Comptroller for Policy, Office of the Comptroller of the Currency

For exceptional service while serving as Chief Counsel to the Comptroller of the Currency during the period from May 1974 to May 1975. Special Achievement Award—$1,200.

DAVID A. BOMGAARS, National Bank Examiner, Office of the Comptroller of the Currency, Kansas City, Mo.

For outstanding performance in the capacity of regional recruiting coordinator for the Tenth National Bank Region which resulted in the substantially increased hiring of highly qualified minorities and women. Special Achievement Award—$500.

VICKI LYNN BOWERS, Data Transcriber, Data Conversion and Accounting Division, Data Conversion Branch, Internal Revenue Service Center, Fresno, Calif.

For suggesting an improved method for data transcribing. Estimated savings—$19,152. Suggestion Award—$780.

ROBERT I. BRAUER, Staff Assistant, Office of Assistant Commissioner (Technical), Internal Revenue Service

For continued superior performance and extraordinary handling of a special project involving the disclosure of letter rulings policy in the Technical organization. Special Achievement Award—$942.

MICHAEL E. BURNS, Formerly Executive Assistant to the Comptroller of the Currency

For exceptional administrative ability and imaginative and perceptive insight into difficult situations with a special ability to resolve conflicting viewpoints. Special Achievement Award—$1,200.

HERBERT CHALFON, Program Manager, Taxpayer Service Division, Internal Revenue Service Center, Philadelphia, Pa.

For drastically reducing inventory of tax cases from 63,000 to 22,000 in one year, thereby resulting in improved taxpayer relations. Special Achievement Award—$689.

JACK CHRISTENSEN, Supervisory Tax Examiner, Adult Division, Internal Revenue Service, Honolulu, Hawaii.

For his suggestion to utilize more fully the capabilities of the computer, thereby eliminating much manual effort. Estimated savings—$35,598. Suggestion Award—$835.

ROY D. CLARK, Director, Internal Revenue Service Center, Kansas City, Mo.

For continuing superior performance in bringing dynamic and innovative management techniques and changes to the Kansas City Service Center. Special Achievement Award—$500.

LARY A. CLENDINEN, Special Agent, Bureau of Alcohol, Tobacco and Firearms, San Diego, Calif.

For his outstanding and exceptional performance of duty in helping to bring to justice the kidnapper of a slain United States diplomatic official. Special Achievement Award—$500.

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JOSEPH CLOUGHERTY, Pension Trust Specialist, Employee Plans and Exempt Organizations, Internal Revenue Service, Boston, Mass.

For excellent performance as Acting Group Manager, Pension Trust Function, Boston District, from October 1973 to September 1974. Special Achievement Award—$727.

WILLIAM M. COLE, Appellate Conferee, Southeast Region, Greensboro Appellate Branch Office, Internal Revenue Service, Greensboro, N.C.

In recognition of superior work performance in carrying out assigned responsibilities. Special Achievement Award—$850.

LOUIS R. CRUZ, Special Agent, Office of Investigations, U.S. Secret Service, Miami, Fla.

For conducting a number of extremely important and difficult criminal investigations, including one in a foreign country, which resulted in the arrest of numerous persons and the seizure of large sums of counterfeit notes. Special Achievement Award—$500.

RICHARD A. CURD, Special Agent, Bureau of Alcohol, Tobacco and Firearms, Kansas City District Office, Omaha, Nebr.

For his suggestion to use steel belted radial tires on Bureau vehicles. Estimated savings—$15,000. Suggestion Award—$675.

JAMES DARLING, Warehouse Maintainer, Internal Revenue Service Center, Holtsville, N.Y.

For his suggestions regarding the use of 306 opener/cutter machines used in Receipt and Control Branch at the Brookhaven Service Center. Estimated savings—$14,141. Suggestion Award—$625.

NICHOLAS DELAMBO, Building Maintenance Foreman, Building and Maintenance Division, San Francisco Assay Office, Bureau of the Mint, San Francisco, Calif.

For his suggestion to modify the Thiele Cartoning Machine thereby increasing the efficiency of coin packaging operations. Estimated savings—$61,783. Suggestion Award—$1,010.

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JOHN R. DOSS, Jr., Chief, Collection Division, Internal Revenue Service, Portland, Oreg.

For developing and implementing revised procedures for compliance with filing requirements of Form 942 by welfare recipients. Special Achievement Award—$1,500.

JOHN F. DOWNEY, National Bank Examiner, Office of the Comptroller of the Currency, Boston, Mass.

For innovation, dedication and outstanding contribution in establishment of the bank examination training team to formally train all newly hired assistant national bank examiners and financial interns. Special Achievement Award—$850.

ROSELYN ERENTA, Supervisory Chemist, U.S. Customs Laboratory, San Pedro, Calif.

For her suggestion which eliminated laboratory analysis of non-prosecutable mail seizures. Estimated savings—$10,000. Suggestion Award—$550.

JOSEPH FARAH, Administrative Officer (Head, Cash Division), New York Assay Office, Bureau of the Mint, New York, N.Y.

For outstanding performance in resolving problems with the collection documents and in negotiating the extension of the Taiwan Dollar Program. Special Achievement Award—$516.

IRVIN E. FAUNCE, Jr., Assistant Director, Government Accounting Systems Staff, Bureau of Government Financial Operations

For exceptional service in facilitating the re-organization of the Bureau of Government Financial Operations including the planning, coordination and direction of efforts to that end. Special Achievement Award—$750.

ERIC J. FRANCKE, Customs Liquidator, U.S. Customs Service, Region II, New York, N.Y.

For developing a computer program for the processing of Customs fraud cases which greatly reduced the number of manual procedures. Estimated savings—$8,924. Suggestion Award—$500.

Beatrice Geiger, Program Manager, Adjustment Branch, Taxpayer Service Division, Internal Revenue Service Center, Philadelphia, Pa.

For designing training material which enabled new tax examiners to become proficient in the use of Integrated Data Retrieval System terminals and for successful implementation of a temporary unit that reduced the size and age of the inventory. Special Achievement Award—$615.

Dominic M. Germano, Special Agent, Office of Protective Intelligence, Intelligence Division, U.S. Secret Service

For investigative qualities, exhibited initiative and sound judgment in three major counterfeiting investigations involving over $2,800,000 in counterfeit currency. Special Achievement Award—$500.

Lawrence B. Gibbs, Assistant Commissioner (Technical), Internal Revenue Service

For continued superior performance in organizing, directing and developing policies, plans, and programs of all headquarters activities concerned with the technical aspects of internal revenue tax administration. Special Achievement Award—$750.

Thomas R. Hardin, Customs Inspector, U.S. Customs Service, San Ysidro, Calif.

For his courage, integrity and cooperation with other law officials in preventing narcotics from entering the United States. Special Achievement Award—$1,000.

William F. Hausman, Director, Office of Operations, Office of the Assistant Secretary (Enforcement, Operations and Tariff Affairs), Office of the Secretary.

For his extensive contribution and exceptional dedication to the effective supervision of those Treasury bureaus reporting to the Assistant Secretary (Enforcement, Operations and Tariff Affairs). Special Achievement Award—$500.

W. A. Howland, Jr., Deputy Comptroller of the Currency for Administration

For outstanding dedication to the highest principles of public service as proven by a record of superior performance and accomplishment. Special Achievement Award—$1,200.

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ROBERT E. KANS, Chief, Communications Section, Bureau of Alcohol, Tobacco and Firearms

For conducting the planning, development, coordination, direction, and evaluation of the wireline communications program of the Bureau. Special Achievement Award—$500.

BEN KRUSEL, Supervisory Customs Inspector, U.S. Customs Service, San Ysidro, Calif.

For his outstanding efforts to impede narcotics from entering the United States which resulted in the seizure of over 12 pounds of heroin. Special Achievement Award—$500.

OTTO H. LAMBRIX, Jr., Import Specialist, U.S. Customs Service, Buffalo, N.Y.

For his suggestion recommending that the Department of Commerce "Correlation: Textile and Apparel Categories with Tariff Schedules of the United States Annotated" be incorporated in the Tariff Schedules of the United States Annotated. Estimated savings—$12,000. Suggestion Award—$500.

WALTER LECHOWSKI, Supervisory Customs Inspector, U.S. Customs Service, Buffalo, N.Y.

For superior efforts in compiling the "Search of Aircraft Handbook," a useful tool in the U.S. Customs enforcement effort. Special Achievement Award—$500.

WILLIAM LEVITT, Group Manager, Manhattan District, Internal Revenue Service, New York, N.Y.

For outstanding contribution in the development of improved reporting procedures for Estate Tax Attorneys. Estimated savings—$22,915. Suggestion Award—$815.

STANLEY R. LISTON, Customs Patrol Officer, U.S. Customs Service, Nogales, Ariz.

For his outstanding efforts to impede narcotics from entering the United States which resulted in the seizure of two vehicles, and the arrest of two individuals. Special Achievement Award—$1,000.

JACK H. MALABY, Director, Administrative Operations Division, Office of the Comptroller of the Currency

For substantial personal contribution, effectiveness in all aspects of leadership, and general assistance to the Deputy Comptroller of the Currency for Administration in the successful consolidation and relocation of the Washington offices. Special Achievement Award—$1,000.

JOHN F. MANN, Machinist, Building and Maintenance Division, U.S. Mint, Philadelphia, Pa.

For suggesting the use of a sizing block to resize and shape copper mold liners used in coin production. Estimated savings—$51,557. Suggestion Award—$960.

LEO F. MCCULLOUGH, General Engineer, Facilities Management Branch, Administration Division, Internal Revenue Service Center, Philadelphia, Pa.

For a plan for converting the Computer room, which was destined for demolition, to an excellent Micro room, thus resolving significant problems of air conditioning, humidity, and lighting. Estimated savings—$95,500. Special Achievement Award—$583.

GENE P. MCGINNIS, Special Agent, Bureau of Alcohol, Tobacco and Firearms, Birmingham, Ala.

For successfully investigating a major bombing case involving mail fraud, racketeering, and moving explosives interstate. Special Achievement Award—$500.

MILTON MEISELS, Competent Authority Analyst, Office of International Operations, Internal Revenue Service

For outstanding contribution and exceptional service as coordinator for the Service-wide Special Events and Promotions Compliance Program. Special Achievement Award—$600.

JOHN G. MOORE, Formerly Computer Specialist, Office of Computer Science, Office of the Secretary

For his expertise in the implementation of the Univac 1108 system at the Bureau of Engraving and Printing. Special Achievement Award—$808.

GREGORY T. MORMILE, Program Planning Officer, U.S. Customs Service

For superior efforts in the planning and responsibility of budget resource and program planning and the development of three major computer systems which have been activated servicewide. Special Achievement Award—$750.

C. WESTBROOK MURPHY, Deputy Chief Counsel, Office of the Comptroller of the Currency

For invaluable assistance as legal advisor to the Comptroller of the Currency in the Customer Bank Communication Terminals rulings. Special Achievement Award—$1,200.

GEORGE NASELLA, Industrial Equipment Mechanic Foreman, Facilities Management Branch, Administration Division, Internal Revenue Service Center, Philadelphia, Pa.

For his suggestion permitting utilization of a large volume of existing forms, resulting in large savings to the Government. Estimated savings—$14,140. Suggestion Award—$655.

ROY D. NEDROW, Special Agent, Office of Protective Forces, Protective Support Division, U.S. Secret Service

For working in conjunction with the New York City Police Department on the theft of U.S. Treasurer's checks and U.S. Savings Bonds resulting in the apprehension of 26 individuals. Special Achievement Award—$500.

RANDOLPH J. NEWGAARD (Retired), Formerly Chief, National Office Facilities Branch, Facilities Management Division, Internal Revenue Service

For outstanding leadership in modernizing the Internal Revenue Building; procuring data processing equipment for 12 separate facilities; developing property and employee protection programs; and establishing many other quality support programs. Special Achievement Award—$994.

CAROLYN C. ONUFRAK, Personnel Officer, Office of the Secretary Personnel Division, Office of the Secretary

For devoted and sustained effort in meeting exceptionally difficult and challenging responsibilities in the field of personnel administration. Special Achievement Award—$500.

DOUGLAS L. PASCHAL, Special Agent, Office of Investigations, U.S. Secret Service, Philadelphia, Pa.

For leadership and direction in closing approximately 3,000 check forgery investigations and the arrest of over 450 forgers. Special Achievement Award—$500.

JERRY D. RATLIFF, Systems and Program Analyst, Electronic Operations Branch, Treasury Disbursing Center, Bureau of Government Financial Operations, Birmingham, Ala.

For special services provided to the projects covering Automated Imprest Fund Cashiers and Automated Supplemental Security Income Non-Receipt Claims. Special Achievement Award $500.

BRUCE R. RIGGS, Deputy Director, Office of Computer Science, Office of the Secretary

For working in close collaboration with several bureaus of the Department and other Government agencies in expediting and negotiating several critical Automatic Data Processing procurements and systemic concept reviews. Special Achievement Award—$900.

WILLIAM ROBERTS, Customs Inspector, U.S. Customs Service, San Ysidro, Calif.

For his keen and alert observation (without prior information) which resulted in the seizure of 5¾ pounds of heroin. Special Achievement Award—$500.

CELINA G. RODRIQUEZ, Administrative Assistant, Office of the Comptroller of the Currency, San Francisco, Calif.

For superior level of performance and outstanding dedication in duties performed as Administrative Assistant in the Fourteenth National Bank Region of the Comptroller of the Currency. Special Achievement Award—$500.

WILLIAM H. SEALS, Special Agent, Bureau of Alcohol, Tobacco and Firearms, Falls Church, Va.

For investigative abilities and professionalism which enabled him to recruit and utilize an informant which led to the successful conclusion of a major criminal case. Special Achievement Award—$500.

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THOMAS J. SHEEHAN, Attorney, Estate Tax, Audit Division, Internal Revenue Service, Boston, Mass.

For the first successful prosecution of an estate tax violation in recent Internal Revenue history and for continued exceptional performance. Special Achievement Award—$727.

CATHERINE L. SIMONS, Customs Inspector, U.S. Customs Service, Los Angeles, Calif.

For alert observation (without prior information) which resulted in the largest seizure of cocaine made at Los Angeles International Airport. Special Achievement Award—$500.

ROBERT H. TERRY, Assistant Commissioner (Accounts, Collection and Taxpayer Service), Internal Revenue Service

For superior performance in reshaping the direction and organization of the ACTS area to bring better service to the public while, at the same time, accomplishing the goals of the Service. Special Achievement Award—$750.

JAMES THOMPSON, Furnace Builder Leader, Building and Maintenance Division, U.S. Mint, Philadelphia, Pa.

For suggesting the use of wooden frames in lieu of collapsible steel forms in the rebuilding of melting furnaces. Estimated savings—$34,989. Suggestion Award—$875.

JAMES M. TINGLE, Senior Management Analyst, Southeast Region Management Staff, Internal Revenue Service, Atlanta, Ga.

For his continuously superior performance and for his problem-solving recommendations which have been used by the highest offices of the Internal Revenue Service, State/local governments and several foreign governments. Special Achievement Award—$727.

DONALD W. TUCKER, Assistant to the Special Agent in Charge, Office of Investigations, Washington Field Office, U.S. Secret Service

For suppression of the largest single counterfeit check operation in the State of California involving the seizure of over $2,500,000 in counterfeit food stamps, a printing plant, negatives, and plates. Special Achievement Award—$500.

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JAMES J. VAREY, Special Agent, Office of Protective Forces, Protective Support Division, U.S. Secret Service

For instituting a complex investigation of the forgery of numerous Treasury checks, leading to the arrest and conviction of a former Federal official. Special Achievement Award—$500.

JOHN H. VERKOUTEREN, Jr., Accounting Officer, Financial Management Division, Office of the Secretary

For outstanding performance in effecting the orderly transfer of the Exchange Stabilization Fund accounting system to the Financial Management Division of the Office of the Secretary, and for related improvements in the overall accounting system. Special Achievement Award—$600.

ANDREW VILARDI, Internal Revenue Agent, Brooklyn District, Audit Division, Brooklyn, N.Y.

For significant achievement in the field of tax fraud enforcement, involving great initiative and coordination in dealings with other Federal Agencies and foreign governments. Special Achievement Award—$615.

ROBERT E. WIDENER, Senior Program Analyst, Intelligence Division, Internal Revenue Service

For unusual initiative and resourcefulness in management information activities and for performing at a level far above what is normally expected during an unusually demanding period. Special Achievement Award—$750.

ROBERT M. WILLIAMS (Retired), Formerly Chief, Office of Research and Technical Services, Bureau of Engraving and Printing

For consistently displaying exceptional competence, integrity and devotion toward furthering and constantly updating the myriad of research programs in this Bureau. Special Achievement Award—$500.

SAMUEL WILLIAMS (Retired), Formerly Messenger-Chauffeur, Office of the Comptroller of the Currency

For his exemplary dedication and devotion to duty while serving three Comptrollers of the Currency. Special Achievement Award—$500.

BURKE W. WILLSEY, Formerly Executive Officer, Office of the Commissioner, Internal Revenue Service

For superior knowledge, resourcefulness and initiative displayed in meeting the demands of his position as Executive Officer to the Commissioner of Internal Revenue. Special Achievement Award—$500.

GARY WILSON, Project Officer, Office of the Comptroller of the Currency

For exceptional service to the Comptroller of the Currency in innovation and implementation of the past due loans reporting system. Special Achievement Award—$750.

BERNARD F. MILLER, Chief, Master File Programming Branch
ALEX P. MOLUSKI, Chief, Revenue Accounting and Processing Branch, Accounts and Data Processing Division, Internal Revenue Service

For outstanding contributions to and participation in the Income Tax Rebate Program, which had a significant impact on every wage-earning household in the country. Group Special Achievement Award—$1,000.

THOMAS W. STOKES, Special Agent
GEORGE R. TRUITT, Special Agent
Bureau of Alcohol, Tobacco and Firearms, Jacksonville, Fla.

For investigative planning, expertise, and judgment which resulted in the arrest and conviction of five conspirator defendants. Group Special Achievement Award—$1,000.

WILLIAM J. DRUM, Special Agent
JAMES J. KELLY, Special Agent
Bureau of Alcohol, Tobacco and Firearms, Philadelphia, Pa.

For employing innovative investigative techniques culminating in a conviction in connection with an arson/explosion. Group Special Achievement Award—$1,000.

WILLIAM J. LELASH, Special Agent
ERNEST J. KUN, Special Agent
Office of Investigations, Los Angeles Field Office, U.S. Secret Service, Los Angeles, Calif.

For supervision of two major counterfeit food stamp investigations resulting in the suppression of over $1,500,000 in counterfeit food stamps and printing facilities before any of the counterfeit stamps could be passed on to the public. Group Special Achievement Award—$1,000.

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WILLIAM W. MAXSON, Supervisory Auditor
KATHRYN E. MITCHELL, Formerly Internal Auditor
Internal Audit Staff, U.S. Mint, Denver, Colo.

For significant initiative and professional competence in increasing the efficiency and productivity related to the Taiwan foreign coinage contract. Group Special Achievement Award—$1,055.

DONALD J. DUIKER, Computer Systems Analyst, Accounts and Data Processing Division, Internal Revenue Service

For his suggestion to eliminate redundancy of command codes on the Integrated Data Retrieval System which resulted in substantial annual monetary savings. Estimated savings—$51,436. Suggestion Award—$960.

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SUGGESTER-OF-THE-YEAR

Charles J. Wilson, Supervisory Inspector, U.S. Customs Service, Buffalo, N.Y.

In recognition of a dynamic and innovative employee whose participation in the suggestion program throughout his career has resulted in substantial savings to the United States Government.

SUPERVISOR OF THE SUGGESTER-OF-THE-YEAR

John F. Chilton, District Director, U.S. Customs Service, Buffalo, N.Y.

BUREAU SUGGESTERS-OF-THE-YEAR

James E. Cowger, Carpenter, Construction and Maintenance Division, Office of Engineering, Bureau of Engraving and Printing

Jack Christensen, Supervisory Tax Examiner, Audit Division, Internal Revenue Service, Honolulu, Hawaii

Richard A. Curd, Special Agent, Bureau of Alcohol, Tobacco and Firearms, Kansas City District Office, Omaha, Nebr.

John F. Mann, Machinist, Building and Maintenance Division, U.S. Mint, Philadelphia, Pa.

Wilma Sangren, Employee Relations Specialist, Personnel Administration Staff, Bureau of Government Financial Operations

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AWARDS TO SUPERVISORS

Recognition by the Secretary of notable achievements by supervisors in encouraging employee contributions to efficiency and economy. These supervisors were selected from Bureau nominees after consideration of such factors as the size of groups supervised, the value of contributions, and the nature of action by the supervisor.

BRUCE A. AUSTAD, National Bank Examiner, Office of the Comptroller of the Currency, Minneapolis, Minn.

For outstanding leadership and administrative and technical ability which led to a substantial improvement in work productivity and training in the Ninth National Bank Region.

WILLIAM R. BARTON, Special Agent in Charge, Foreign Dignitary Protective Division, U.S. Secret Service

For superior dedication and exceptional expertise in the organization and development of the Secret Service's Foreign Dignitary Protective operation, which has provided effective security for more than 460 visiting dignitaries.

MILDRED L. BENNETT, Examining Assistant Foreman, Examining Division, Office of Securities Processing, Bureau of Engraving and Printing

For her ability to administer and implement the provisions of the Union Contract in her area, with proper amounts of "the personal touch."

LELA L. BOWEN, Supervisor, Payroll and Accounting Section, Division of Disbursement, Bureau of Government Financial Operations, Chicago, Ill.

For outstanding leadership and ability to obtain maximum cooperation and efficient performance from her employees in accomplishing their own work as well as other assigned duties.

JAMES A. BRUNO, Foreman of Bookbinders, Food Coupon Section, Postage Stamp Division, Office of Securities Processing, Bureau of Engraving and Printing

For outstanding leadership in encouraging his employees to perform their duties with a high degree of effectiveness and for providing appropriate recognition for their achievements.

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SALVATORE E. CARAMAGNO, Director, Classification and Value Division, U.S. Customs Service

For outstanding managerial ability in developing systematic methods for processing highly technical legal decisions and for development of a management system for coordinating the interpretations of complex legal questions effectively and efficiently, to the benefit of the Service and the importing public.

ELLYN CARPENTER, Examining Foreman, Examining Division, Office of Securities Processing, Bureau of Engraving and Printing

For inspiring her employees toward greater productivity and higher morale through outstanding leadership and personal example.

WALTER C. CHILDS, Chief, Trust Section, Securities Transactions Branch, Division of Securities Operations, Bureau of the Public Debt

For outstanding supervisory competence and technical skills.

JOHN F. CHILTON, District Director, U.S. Customs Service, Buffalo, N.Y.

For outstanding leadership and accomplishment in support of the suggestion program of the U.S. Customs Service.

LILLIE HARRIS, Supervisor, Mail Section, Payment Facilities Branch, Washington Disbursing Center, Bureau of Government Financial Operations

For outstanding leadership in successfully motivating employees to perform at maximum efficiency with increased productivity and improved service to Administrative Agencies.

ROBERT L. HOOKER, Manager, Procurement Branch, Division of Facilities Management, Bureau of Government Financial Operations

For outstanding and exceptional leadership in effecting a well-trained and highly efficient organization performing complex procurement and contractual services for all elements of the Bureau.

GEORGE M. KIMMERLEIN, Chief, Audit Division, Internal Revenue Service, Providence, R.I.

For his high standard of managerial capability, and his deep empathy for employees and their problems coupled with an honest desire to aid in the resolution of these problems.

RUSSELL A. MUNDY, Foreman of Bookbinders, Perforating Section, Postage Stamp Division, Office of Securities Processing, Bureau of Engraving and Printing

For outstanding leadership in encouraging his employees to perform their duties with a high degree of effectiveness and for providing appropriate recognition for their achievements.

JANE F. O'BRIEN, Supervisory Claims Examiner, Chief, Congressional Claims Liaison Section, Division of Check Claims, Bureau of Government Financial Operations

For exhibiting leadership and innovative approaches to claims examining, thus greatly relieving the Division, the Bureau and the Department of much of the pressure and concern which is directly related to Congressional inquiries on the status of outstanding and paid constituent checks.

EUGENE G. SCHEURING, Director, Financial Management Division, U.S. Customs Service, Chicago, Ill.

For encouraging participation of his employees in the improvement of Government operations.

ALFRED G. SCHOLLE, Chief, Value and Freedom of Information Branch, U.S. Customs Service

For outstanding leadership in meeting highly complex and technical legal requirements with existing resources; and for motivating, by personal example, his employees to perform at the highest levels of efficiency and achievement.

ANNE E. STEWART, Library Director, Office of Administrative Programs, Office of the Secretary

For dedicated leadership and motivation resulting in cost reduction and increased efficiency of her employees, who consistently respond to inquiries and problems in a manner which greatly enhances the image of the Treasury library.

CHARLES STEWART, Manager, Collection Branch, Division of Cash Services, Bureau of Government Financial Operations

For dedicated and tireless energy in discharging his duties during a difficult period of transition and change in the functions of his branch.

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Thomas A. Tracy, Jr., Manager, Correspondence and Claims Branch, Division of Securities Operations, Bureau of the Public Debt

For outstanding supervisory competence and technical skills.

Keith L. Williams, State Director, U.S. Savings Bonds Division, Tampa, Fla.

For outstanding leadership qualities and rapport with his staff members and his ability to build and hold the morale of his employees at a very high level, thus motivating his people to strive for and achieve the objectives of the Savings Bonds Program.

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SPECIAL AWARDS FOR EXCELLENCE IN FURTHERING SPECIAL GOVERNMENT-WIDE PROGRAMS

Recognition by the Secretary for outstanding contributions to the furtherance of a number of Government-wide programs in which the President has asked for special attention and extra effort from the executive branch of the Government.

LINDA W. BAZILUIK, Secretary, Office of the Director, Division of Securities Operations, Bureau of the Public Debt

For outstanding effectiveness in communication with personnel of Congressional offices, Federal Reserve Banks and Branches, commercial banks, brokerage firms, attorneys and individual security holders.

SEYMOUR BERRY, Assistant Director, Administration, Bureau of Engraving and Printing

For his ability to continuously improve labor-management relations and foster an attitude of cooperative problem resolution.

PAUL W. BUZZELL, Public Affairs Officer, Internal Revenue Service, Newark, N.J.

For substantially advancing Internal Revenue Service efforts to improve communication and service to the public through innovative, vigorous and professional public information efforts and excellent relations with the mass media.

DOLORES FANTONE, Head, Office Services Branch, Management Services Division, Office of Administrative Services, Bureau of Engraving and Printing

For consistently high level quality performance, initiative and innovation in the conduct and coordination of the Bureau's numismatic and philatelic exhibit program.

ROBERT L. GEFRE, Management Officer, Facilities Management, Aberdeen District, Internal Revenue Service, Aberdeen, S.D.

For his genuine concern and creative efforts in furthering the placement and training of the disadvantaged, seriously handicapped, women, and Vietnam era veterans during the period of May 1973 through July 1975.

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EVELYN D. HARRIS, Coil Processing Foreman, Postage Stamp Division, Office of Securities Processing, Bureau of Engraving and Printing

For outstanding contributions and special efforts in assisting and training newly hired personnel in her unit.

JAMES J. F. HASLIP, Assistant Area Director, New York Seaport, Region II, U.S. Customs Service, New York, N.Y.

For outstanding leadership and accomplishment in the furthering of Hispanic Upward Mobility and for providing guidance to the disadvantaged and uninformed.

FRANK LANCIONE, Employee Development Specialist, Training Division, National Office, Internal Revenue Service

For his leadership in initiating, promoting and furthering the Upward Mobility training effort in the Internal Revenue Service and his contributions to other Federal agencies.

CARL M. LOCKEN, Jr., Manager, Registered Accounts Branch, Division of Public Debt Accounts, Bureau of the Public Debt

For personal sacrifice, leadership and innovative thinking in planning, implementing and directing highly technical management improvements in the sensitive and important area of registered securities.

MONA C. MELVILLE, Technical Assistant, Office of the Director, Division of Transactions and Rulings, Bureau of the Public Debt, Parkersburg, West Va.

For technical excellence in handling savings bonds transactions, and willingness and cooperation in accepting additional duties and responsibilities, to promote continued high level service to investors.

JAMES J. MURRAY, Chief, Publishing Services Branch, Internal Revenue Service

For outstanding leadership in promoting excellence in the furnishing of publishing services for the agency to better serve the taxpaying public.

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ROBERT J. REED, Jr., Acting Manager, Unissued Securities Branch, Division of Securities Operations, Bureau of the Public Debt

For outstanding technical competence and effective communication in dealing with personnel of the Federal Reserve Banks and Branches, commercial banks, printing contractors and armored carriers.

JOSEPHINE ROANE, Office Machine Operations Supervisor, Division of Check Claims, Bureau of Government Financial Operations

For excellence in training and supervising mentally retarded employees and for creating an atmosphere of cooperation and efficiency which enabled these employees to provide valuable services to the Bureau.

ESTHER A. ROBEY, Personnel Records Clerk, Postage Stamp Division, Office of Securities Processing, Bureau of Engraving and Printing

For continued excellence in the orientation and placement of students in special Government programs by motivating and encouraging them to become productive employees.

ALYCE W. ROBINSON, Manager, Diversified Payments Branch, Bureau of Government Financial Operations, Philadelphia, Pa.

For demonstrating exceptional expertise in dealing with others, resolving complaints equitably and communicating the principles and concepts of the total Equal Employment Opportunity Program to management and employees.

SIDNEY SANDERS, Safety Director, Office of Administrative Programs, Office of the Secretary

For outstanding leadership in promoting the Treasury Safety Program which, through his efforts, has achieved injury and motor vehicle accident rates far below the Government average.

CHARLES F. SCHWANKL, Chief, Administration Division, Internal Revenue Service Center, Kansas City, Mo.

For his continuing strong personal commitment to furthering Equal Employment Opportunity and his outstanding ability to transform his personal objectives into significant results.

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Hinton D. White, Chief, Operating Services Section, Facilities Management Branch, Internal Revenue Service, Jacksonville, Fla.

For significant accomplishments in promoting the Veterans Readjustment Appointment Programs.

Frederick Van Zeck, Supervisory Operating Accountant, Registered Accounts Branch, Division of Public Debt Accounts, Bureau of the Public Debt

For personal sacrifice, leadership and innovative thinking in planning, implementing and directing highly technical management improvements in the sensitive and important area of registered securities.

Frances Schwartz, Clerk Typist
Doris Root, Clerk Typist
Colasca Davis, Clerk Typist
Cash Division, San Francisco Assay Office, Bureau of the Mint, San Francisco, Calif.

For initiative and resourcefulness in developing and implementing a more effective procedure for processing damaged and shortaged coin sets which resulted in significant contributions to improved public service.

David Starnes, Chief, Management Information Branch
Richard A. Sweeney, Management Analyst
Management Analysis Division, U.S. Customs Service

For significant contributions to the re-emphasis and restructuring of the Management by Objectives system in order to strengthen the system and to make it more responsive and beneficial to the Service and to the Department.

Travis J. Towson, Management Analyst
James W. Shaver, Supervisory Management Analyst
Management Analysis Division, U.S. Customs Service

For significant contributions to Customs paperwork management by their extensive and dedicated effort in the research analysis and design of the new Customs manual directives systems.

Edward Hurst, Assistant General Foreman
Joyce Godfrey, Coin Review Leader
Production Branch, Bureau of the Mint, San Francisco, Calif.

For outstanding skill and leadership in motivating and training approximately forty handicapped persons during fiscal year 1975.

Kenneth J. Kalscheur, Personnel Management Specialist
L. James Spaulding, Employee Relations Specialist
Penelope A. Cole, Employee Development Specialist
A. Jean Pitts, Employee Development Specialist
Office of Industrial Relations, Bureau of Engraving and Printing

For their initiative and accomplishments in establishing and effectively implementing an Upward Mobility Program which meets the needs of employees as well as the organization, and which has created new career development opportunities for those who might otherwise not have had them.

Management Analysis Division, Office of Management and Organization, Office of the Secretary

For excellence in developing operational improvements to the Equal Employment Opportunity, General Revenue Sharing, and Savings Bonds programs; and for outstanding leadership in the development and installation of Departmental systems to implement the Federal Advisory Committee Act, the Freedom of Information Act, and the Privacy Act.

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CAREER SERVICE RECOGNITION

Recognition by the Secretary of employees in the Washington, D.C. area who attained 50, 45, or 40 years service during fiscal year 1975.

50 Years of Federal Service

None

45 Years of Federal Service

None

40 Years of Federal Service

Carold Arnold (Retired)	Internal Revenue Service
Thelma G. Dubinsky (Retired)	Office of the Secretary
Jerome C. Fells	Bureau of Engraving and Printing
William S. Foster	Bureau of Engraving and Printing
Isidore Goodman	Internal Revenue Service
Clara E. Harrington	Internal Revenue Service
Hubert J. Hintgen	Bureau of the Public Debt
Paul K. McCarthy (Retired)	U.S. Customs Service
James W. Price	Bureau of Engraving and Printing
Otis Seward (Retired)	U.S. Customs Service
Frederick Wiggins (Retired)	Bureau of Engraving and Printing
Robert S. Williams	Office of the Secretary

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THE SECRETARY'S ANNUAL AWARDS

The Secretary of the Treasury presents honorary awards to recognize bureaus for outstanding performance in a number of areas.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (PERFORMANCE)

Bureau of Engraving and Printing

For outstanding overall results in effectively recognizing employee performance which significantly exceeded normal job requirements. Over 34 percent of all personnel of the Bureau received cash awards or high quality pay increases, and tangible benefits from services recognized averaged over $4,000 per 100 employees.

SECRETARY'S AWARD FOR INCENTIVE AWARDS PROGRAM (SUGGESTIONS)

Bureau of the Mint

For the best overall results in the suggestion program during fiscal year 1975. For each 100 employees on its rolls the Bureau had over 3 adopted suggestions and estimated savings of over $5,000.

SECRETARY'S AWARDS FOR SAFETY

Comptroller of the Currency

For showing the greatest reduction in the frequency of disabling injuries over the preceding three year average for Bureaus with over 1,800 personnel. The Bureau reduced its rate to .4 disabling injuries per million man-hours worked, a reduction of 60% from the previous three year average.

Office of the Secretary

For showing the greatest reduction in the frequency of disabling injuries over the preceding three year average for Bureaus with under 1,800 personnel. The Office of the Secretary reduced its rate to .7 disabling injuries per million man-hours worked, a reduction of 58.8 percent from the previous three year average.

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MERITORIOUS SERVICE AWARDS

The Meritorious Service Award is next to the highest award which may be recommended for presentation by the Secretary. It is conferred on employees who render meritorious service within or beyond their required duties.

ELWYN T. BONNELL (Retired), formerly Financial Economist, Revenue Estimating Staff, Office of Tax Analysis, Office of the Secretary

For his important contributions to the continuing problem of providing accurate statistical descriptions of the revenue system.

JOHN G. BREMER, Jr., Director, Headquarters Patrol Division, U.S. Customs Service

For outstanding management accomplishments in significantly improving the effectiveness of the Customs program for interdicting the flow of contraband into the United States.

EDWARD W. BROOKS, Assistant Director (Real Property Management), Office of Administrative Programs, Office of the Secretary

For outstanding service to the Department in the management of its real property, achieving significant monetary savings and establishing unusually effective management systems.

ROBERT P. BURRILL, Director, Division of Securities Operations, Bureau of the Public Debt

For his exemplary dedication, managerial skills, and personal leadership in directing the activities of the Bureau's Division of Securities Operations.

JOHN R. BURT, Regional Administrator of National Banks, Tenth National Bank Region, Office of the Comptroller of the Currency, Kansas City, Mo.

For sustained superior performance in formulating and maintaining unusually high standards of bank supervision and for developing a staff of highly trained examiners by skillful administration and technical supervision.

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ALBERT B. CLARK, Special Agent, Intelligence Division, Internal Revenue Service, Salt Lake City, Utah

For quick thinking and prompt action in rendering aid and assistance where it was needed to sustain and preserve the life of an injured individual.

CHESTER V. CLAUSEN, Manager, Distribution Center, U.S. Savings Bonds Division, Chicago, Ill.

For his sustained excellence in directing the operations of the Savings Bonds Division's Chicago Distribution Center for 34 years; providing a key service to the Division nationwide and contributing to the overall efficiency and success of the Savings Bonds Program.

ELIZABETH W. COLTON, Assistant Director (Personnel Management Evaluation), Office of the Secretary

For consistently demonstrating outstanding competence and leadership in establishing and directing a Personnel Management Evaluation System which has made significant contributions to improved utilization of human resources throughout the Department.

GEORGE C. CORCORAN, Jr., Acting Assistant Commissioner (Investigations), U.S. Customs Service

For outstanding leadership and direction of the Office of Investigations, U.S. Customs Service.

MICHAEL DOMAN, Regional Administrator of National Banks, Eleventh National Bank Region, Office of the Comptroller of the Currency, Dallas, Tex.

For sustained superior performance and professional expertise in formulating and maintaining unusually high standards of bank supervision of 770 national banks with assets of $43 billion.

WILLIAM J. DRUM, Special Agent, Bureau of Alcohol, Tobacco and Firearms, Philadelphia, Pa.

For demonstrating outstanding ability and exemplary initiative in solving an arson-conspiracy case.

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JOHN GARMAT, Deputy Director, Office of Budget and Finance, Office of the Secretary

For important contributions while occupying various positions responsible for programming, planning and budgeting and for his assistance and support to top Treasury officials on matters outside the scope of his normal duties.

JAMES J. KELLY, Special Agent, Bureau of Alcohol, Tobacco and Firearms, Philadelphia, Pa.

For demonstrating outstanding ability and exemplary initiative in solving an arson-conspiracy case.

GERTRUDE K. MANGAN, Director, Special Financing Staff, Banking and Cash Management, Bureau of Government Financial Operations

For providing outstanding leadership and initiative in the development of policies and procedures in the advance financing program.

JAMES C. NEELY, Assistant Comptroller for Finance, Bureau of Government Financial Operations

For demonstrating outstanding effectiveness in providing leadership and technical expertise to the financial management program of the Bureau.

THOMAS P. O'MALLEY, Assistant Director (Procurement and Personal Property Management), Office of Administrative Programs, Office of the Secretary

For his accomplishment in developing a program to increase the level of professionalism in the procurement and contracting functions throughout the Department.

WALTER A. PORTEOUS, Assistant Comptroller for Auditing, Bureau of Government Financial Operations

For demonstrating outstanding professional competence and sustained leadership in assuring that the internal audit operation is an integral part of the total of the financial management of the Bureau's functions and operations.

KENNETH W. RATH, Director, Division of Public Debt Accounts, Bureau of the Public Debt

For demonstrating a high level of managerial competence, sound judgment and leadership in accounting for the public debt.

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BELLA J. ROSS (Retired), Formerly Deputy Director, Office of Statistical Reports, Office of the Assistant Secretary (International Affairs)

For her dedicated service to the Department and the unusual combination of skills which she has evidenced in contributing to the improvements in statistical reporting systems achieved by the Office of Statistical Reports.

ROBERT K. SCROGGS, Director, Personnel Administration Staff, Bureau of Government Financial Operations

For a high degree of technical competence and leadership as Personnel Officer in the Bureau of Accounts and during the critical reorganization of the Bureau of Accounts and the Office of the Treasurer, U.S., into the Bureau of Government Financial Operations.

H. JOE SELBY, First Deputy Comptroller of the Currency for Operations, Office of the Comptroller of the Currency

For outstanding managerial expertise as Regional Administrator of National Banks of the Fourteenth National Banking Region in formulating and maintaining unusually high standards of bank supervision of 63 national banks with 2,765 branches and assets exceeding $43 billion.

JOHN W. SHAFFER, Regional Administrator of National Banks, Eighth National Bank Region, Office of the Comptroller of the Currency, Memphis, Tenn.

For sustained superior performance and technical competence in developing and maintaining unusually high standards of bank supervision of 335 national banks with 1,227 branches and assets of $29 billion.

ORION H. TOMKINSON, Deputy Assistant Commissioner, Banking and Cash Management, Bureau of Government Financial Operations

For exceptional service and exemplary contributions to the Bureau and to the Department in the Unfit Currency Program.

MARGARET L. WALKER, Chief, Statistical Division, Office of Public Services, Bureau of the Mint

For her efforts and achievements in the improvement of the "Annual Report of the Director of the Mint" and for the development of an effective Federal Women's Program for the Bureau of the Mint.

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EXCEPTIONAL SERVICE AWARD

This is the highest award which may be recommended for presentation by the Secretary. The award is conferred on employees who distinguish themselves by exceptional service within or beyond their required duties.

MICHAEL BRADFIELD, Formerly Assistant General Counsel for International Affairs, Office of the General Counsel, Office of the Secretary

For outstanding achievements and service to the Department as legal counsel to the Assistant Secretary (International Affairs) and, later, to the Assistant Secretary (Trade, Energy and Financial Resources Policy Coordination).

ERNEST S. CHRISTIAN, Jr., Formerly Deputy Assistant Secretary (Tax Policy)

For the extraordinary creativity, intelligence, and dedication with which he served the Department, first as Tax Legislative Counsel and later as Deputy Assistant Secretary for Tax Policy.

LARY CLENDINEN, Special Agent, Bureau of Alcohol, Tobacco and Firearms, San Diego, Calif.

For his outstanding and exceptional performance of duty in helping bring to justice the kidnapper of a slain United States diplomatic official.

WILBUR R. DEZERNE, Director, Office of Audit, Office of the Secretary.

For the exemplary skill and leadership he has shown as the first Director of the Office of Audit which has resulted in a striking record of accomplishment.

GLENN R. DICKERSON, Deputy Commissioner, U.S. Customs Service

For outstanding performance in mission accomplishment and cost effectiveness in the role of Deputy Commissioner, U.S. Customs Service

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EDGAR R. FIEDLER, Formerly Assistant Secretary (Economic Policy)

For his unusual professional capabilities and scholarship, and concise and effective interpretation of complex economic issues which have provided invaluable assistance to the Secretaries he has served.

RICHARD M. HAHN (Retired), Formerly Associate Chief Counsel (Technical), Internal Revenue Service

For the exceptional legal and managerial ability which he displayed during his more than 26 years of service in increasingly responsible positions in the Office of the Chief Counsel.

FREDERIC W. HICKMAN, Formerly Assistant Secretary of the Treasury (Tax Policy)

For his invaluable and dedicated service as Assistant Secretary for Tax Policy during the terms of two Secretaries of the Treasury and as Deputy Assistant under a third.

THOMAS R. LUSK (Retired), Formerly Assistant Director, Revenue Estimating Staff, Office of Tax Analysis, Office of the Secretary

For outstanding contributions to the Department as Assistant Director, Revenue Estimating Staff, and in his earlier assignments as Financial Economist and Assistant to the Chief, Revenue Estimating Staff.

MARTIN H. MILLER (Retired), Formerly Executive Secretary, U.S. Industrial Payroll Savings Committee, U.S. Savings Bonds Division

For unusual devotion to duty, diligence and conscientiousness in carrying out a vital and progressive payroll savings program.

SIDNEY MINTZ (Retired), Formerly Assistant Director of Personnel (Training, Development and Recognition), Office of the Secretary

For his key role in the development of the Department's personnel management policies and programs, especially in the areas of training and incentive awards.

EILEEN C. O'CONNOR (Retired), Formerly Attorney Advisor (General), Office of the General Counsel, Office of the Secretary

For long and exceptional service, as a Treasury career attorney, in the formulation and drafting of major legislation having far-reaching and important effects in the areas of banking, customs, coinage, and international finance.

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GERALD L. PARSKY, Assistant Secretary (Trade, Energy and Financial Resources Policy Coordination)

For his keen perception and knowledge of the governmental process and his unique ability to coordinate complex inter-relationships among agencies of the government which have been invaluable to the department.

EDWARD M. ROOB, Formerly Special Assistant to the Secretary (Debt Management)

For the exemplary skill and professionalism with which he managed a heavy responsibility in a period of extraordinary economic fluctuation and change.

GRAHAM W. WATT, Formerly Special Assistant to the Secretary and Director, Office of Revenue Sharing, Office of the Secretary

For outstanding performance as the first Director of the Office of Revenue Sharing and for having brought together a talented and dedicated group of individuals, moulded them into an effective organization, and guided them in implementing a program that has been praised for both its efficiency and its success in meeting its objectives.

BURKE W. WILLSEY, Formerly Assistant to the Commissioner, Internal Revenue Service

For the exceptional and distinguished service he has rendered as Attorney Advisor to the Tax Legislative Counsel and as Assistant to the Commissioner of the Internal Revenue Service.

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ALEXANDER HAMILTON AWARDS

This award is conferred by the Secretary to individuals personally designated by him to be so honored. It is generally restricted to the highest officials of the Department who have worked closely with the Secretary for a substantial period of time and who have demonstrated outstanding leadership during that period.

JACK F. BENNETT, Formerly Under Secretary for Monetary Affairs

For his distinctive service to three Secretaries of the Treasury during periods of severe economic stress and for his wise counsel and leadership, which have repeatedly resulted in the development and implementation of a sound and appropriate course for the government.

DONALD J. MCGREW (Retired), Formerly Treasury Representative at the U.S. Embassy, Paris, Office of the Assistant Secretary (International Affairs)

For distinguished service representing the Department in the conduct of financial relations with the Government of France and for his advice and counsel which have proved invaluable in time of great changes in international monetary arrangements.

EDWARD C. SCHMULTS, Under Secretary

For his dedicated and competent service to two Secretaries of the Treasury as General Counsel and later as Under Secretary, during which time significant reform in government operations has required comprehensive and difficult restructuring of operating procedures and policy.

GEORGE P. SHULTZ, Formerly Secretary of the Treasury

For his distinguished performance as the 62nd Secretary of the Treasury and for raising the standards of that office to unsurpassed new heights of dedication and professional excellence.

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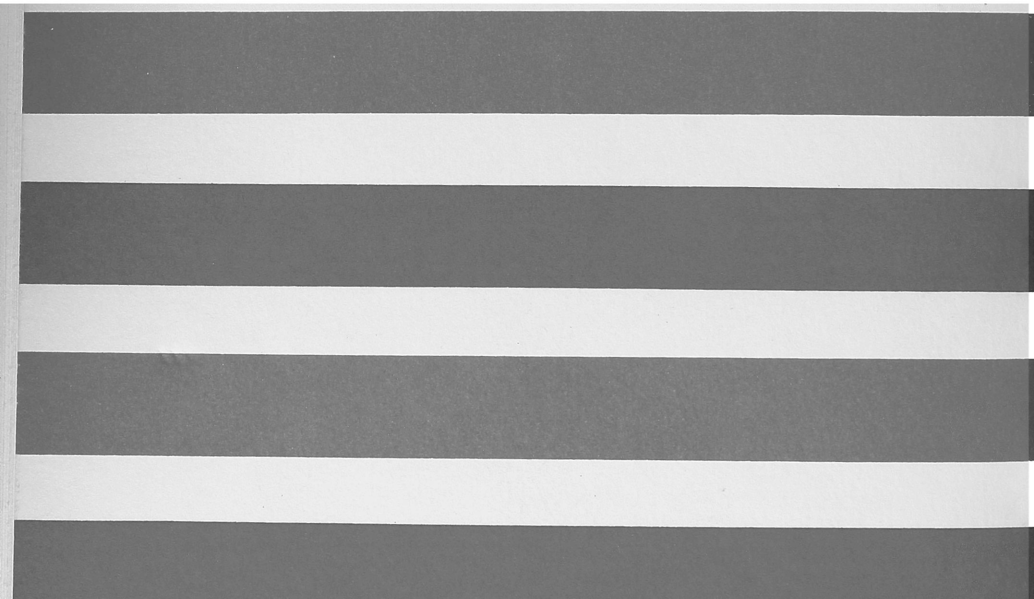

Department of the TREASURY NEWS
NGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE AT 1:00 P.M. October 15, 1975

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE ASSOCIATED PRESS MANAGING EDITORS ASSOCIATION
WILLIAMSBURG, VIRGINIA, OCTOBER 15, 1975

As a public figure who spends a good deal of time talking with reporters, I very much appreciate the opportunity to address such a distinguished gathering of journalists.

Six months ago, I had the pleasure of speaking to the American Newspaper Publishers Association in New Orleans where we talked extensively about the state of economic reporting today. I told them that in my view the state of the art was much higher now than in the old days. You may recall that only a few years ago, the Chairman of the Council of Economic Advisers under President Johnson, Gardner Ackley, was so vexed with reporting that he urged that every economics reporter be required to meet two standards:

-- First, that he had taken an introductory college course in economics; and,

- Second, that he had passed it.

Fortunately, times have changed and reporters have changed for the better. There is far more economic sophistication among the writers in Washington today, and I think a large portion of the credit belongs to the Associated Press and the other wire services. By emphasizing the need for accuracy and straight, factual reporting, the Associated Press is not only enhancing its own reputation but is performing a valuable service for the American people. I congratulate you for your performance.

Let me turn now to my theme for this address: Government spending and inflation.

WS-413

"The credit of the family depends chiefly on whether that family is living within its income. And that is equally true of the Nation. If the Nation is living within its income, its credit is good.

"If, in some crises, it lives beyond its income for a year or two, it can usually borrow temporarily at reasonable rates.

"But if, like a spendthrift, it throws discretion to the winds and is willing to make no sacrifice at all in spending; if it extends its taxing to the limit of the people's power to pay and continues to pile up deficits, then it is on the road to bankruptcy."

That's strong language--the fire and brimstone you might expect from a Bill Simon, or as the New York <u>Times</u> called me this weekend, the Cotton Mather of fiscal orthodoxy.

But that statement was actually issued more than 40 years ago and it came from the Democratic candidate for President in 1932, one Franklin Delano Roosevelt. To Mr. Roosevelt it was unconscionable that the Hoover administration has permitted the National debt to increase by more than $3 billion.

One can only wonder what the FDR of those early days before the New Deal would think of all that has come to pass in the Nation's fiscal affairs since then. Consider just a few of the most salient points about the growth of government spending:

* Under FDR's predecessor, government spending at all levels amounted to 10% of our Gross National Product. Today it accounts for fully one third of the GNP and by the year 2,000, if recent trends in transfer programs were to prevail, it could be nearing 60% of the Nation's economic activity.

* It took 195 years of our history for the Federal budget to reach $200 billion. Now we are threatening to double that amount in only 6 years.

* To those who say that the economy is growing rapidly so that higher spending can be accommodated, it should be pointed out that over tha past decade, Federal spending has increased by 175% while the economy has grown by only 120%.

* Prior to the New Deal, this Nation during its peacetime years kept its Federal budget in surplus for four years out of almost every five. Since the beginning of New Deal, the Federal budget has been in the red in nearly 4 years out of every five, and over the last 15 years we have had only one budget surplus.

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* It took 74 years for the Nation to accumulate a national debt of $1 billion. Now our national debt is climbing at the rate of more than $1 billion a week.

* Paying interest on the national debt has now become the third largest item in our budget--ranking behind only national defense and social security. In fact, paying interest on the debt now costs us more than $160 a year for every man, woman and child in the country--$36 billion a year and climbing.

* As large-scale deficits have mounted in the regular agencies and departments as well as the off-budget agencies--the creatures set up in recent years partly to avoid the discipline of the regular budgeting process--the Federal Government has been forced to borrow extraordinary amounts of money in the private money markets--money that would otherwise be available to private enterprise to expand their operations and create new jobs. In the past 10 fiscal years, the Federal Government has borrowed over a third of a trillion dollars from those markets. Last year, four out of every five dollars borrowed in the long-term capital markets--excluding housing--were borrowed by an agency of the Federal Government.

* Growth in federal programs has accompanied growth in spending. In 1960, at the end of the Eisenhower years, there were approximately 100 Federal programs for domestic assistance. Today there are 1009.

* And with the growth of government, there has also come a growth in governmental bureaucracy, especially at the state and local level. Today one out of every six people in the labor force works for the Government.

By citing the growth of government in recent years, I do not mean to suggest that all of these spending programs have been ill-advised or that they ought to be abolished to the contrary, it is clear that many of the actions taken by the government have been progressive and helpful. The human hardships resulting from the recession, for instance, would have been much more painful had their impact not been cushioned by expanded benefits for unemployed workers. The poor and disabled people of this country are also much more secure than they were a few years ago.

Yet, it is time to recognize that this explosive growth in government spending, in government deficits, in government bureaucracy, and in government regulation is exacting a higher and higher toll within our nation. Unless we change direction soon, we will drift relentlessly--even aimlessly--into a society that is run and directed out of Washington and in which the freedoms we once enjoyed will be nothing more than a page in our history.

One of the most pernicious results of the horrendous growth in government spending during the past decade--and a result that now lies at the root of many of our economic problems--has been the persistent rise in prices.

When the Federal Government increases its spending and runs deficits year after year, especially during periods of high economic activity, it becomes a major source of economic and financial instability. The huge increase in Government spending in the 1960s and 1970s has added enormously to the aggregate demand for goods and services and thus has been a major factor in the upward pressures on price levels.

In addition, the heavy borrowing by the Government has been an important factor in forcing up interest rates and in the strains that we have seen in the financial markets. With the Treasury Department standing at the head of the credit line with oversized borrowing needs, interest rates are naturally driven up, some private needs go unfulfilled and private investment suffers. This is the essence of the "crowding out" problem that has become so apparent now in the financial markets. Even with a considerable degree of slack on the economy, access to the capital markets today is for all practical purposes limited to only top-rated companies. Marginal companies, new growth companies, and even solid companies with less than A-ratings have almost been totally shut out from the long-term sector. And interest rates today are more illustrative of the terminal stages of a boom that the early months of economic recovery. To be sustainable, the recovery must be broad-based; the credit system must be capable of putting funds into the many and diverse sectors of the economy. That is why it is essential that as the recovery progresses, the Government must play a less dominating role in the financial markets.

And even worse result of recent budgetary practices is the erosion of public confidence in the ability of our Government to deal with inflation. As Government spending and deficits continue year-in, year-out and inflation mounts, inflationary expectations are built into the very frabic of our economy. There is a growing public perception that those who promise the most tend to deliver the least--except for inflation.

Closely related to these excessive fiscal policies in recent years have been excessive monetary policies. Our printing presses have been churning out more and more currency that is worth less and less. Indeed, the monetary supply during the past decade has grown more than two and one-half times as rapidly as in the decade before when we enjoyed greater price stability. Ultimately, this monetary growth has increased the upward pressure on the rate of

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inflation and interest rates. And one prime reason for this monetary growth, I might add, has been the need to accommodate the chronic budget deficits.

Thus, excessive spending policies and excessive monetary policies lie at the very foundation of much of our inflation--an inflation that in turn rose so high that it tipped us into recession. Economists did not agree at first that it was excessive inflation which forced us into a recession, but now there is widespread recognition of that fact.

I do not mean to suggest that excessive government policies are the only factors behind inflation. Higher food and energy prices have plainly had an impact, especially in most recent years. Devaluations of the dollar and other actions have also played a role. But I would argue that the underlying causes of the past decade of higher and higher inflation are the clearly excessive fiscal and monetary policies that began back in the 1960s.

I believe the American people are fed up: they are fed up with a government that spends more and more of their money with so few results; they are fed up with massive deficits; they are fed up with overzealous bureaucracy; they are fed up with unemployment and under-employment; and most of all, they are fed up with inflation. They know something is seriously wrong in Washington--and believe me, they're right.

Sometimes when one is looking at the national economic picture, it is possible to lose sight of what inflation has come to mean for the average working family in this country.

The housewife going to the supermarket last year must have felt that she was wandering through a mine-filed, with prices exploding on every side. Indeed, at 1974's inflation rate of 12 percent, the bill for a bag of groceries costing $10 would triple in only 10 years--to $31. Even at today's inflation rate of 7-8 percent, the bill for that bag of groceries would double in 10 years. How many can continue to make ends meet under those conditions?

While everybody suffers from inflation, those who are hardest hit are those who can least afford it: the poor, the unemployed, the retired, the disabled and the dependent. At last year's inflation rate, a person retiring on a $500 monthly check would see the purchasing power of that check cut by two thirds in only 10 years--to only $161. Even at the current rate of inflation, the value of the check would be sliced in half in 10 years. How can a retired couple be expected to live in any kind of comfort with that kind of shrinking dollar?

And I'm sure you need few reminders of what's happened to the cost of running a newspaper -- or what inflation has done to any businessman who has to replace worn-out equipment and machinery. It's like the bag of groceries all over again. If you bought a printing press for $1 million, today's inflation rate would mean it would cost you $2 million to replace it in 10 years. It's small wonder that with the persistent inflation of the past decade, we have suffered from underinvestment and that more and more serious observers are becoming worried about the prospects of future "capital shortages" and more unemployment than we should have.

Even this listing of the consequences of inflation is far from complete, for it does not take into account the far-reaching social and political implications of chronically high inflation rates. Indeed, such inflation would place the entire free enterprise system in this country in peril. If our financial markets remain under the strain they are today, if utilities have trouble obtaining necessary financing to keep up with inflation, if money flows out of the thrift institutions because of inflation, if the housing industry suffers along with the thrifts, and if the airlines, the real estate investment trusts, and others go to the wall, who will be called in to the rescue? If the retired people of this country cannot protect themselves against inflation, who is it that can serve as a rescuer? You know the answer: Government. Clearly, continued inflation would bring a massive expansion of the public sector and would threaten the very survival of large areas of the private sector.

Those who are so liberal in spending other people's money are fond of quoting from the economist John Maynard Keynes. I suggest to them that they not forget a very critical passage in the book by Lord Keynes on the Versailles peace conference:

"Lenin is said to have declared that the very best way to destroy the Capitalist System was to debauch the currency ... Lenin was certainly right. There is no subtler, no surer means of overturning the existing basis of society than to debauch the currency. The process engages all the hidden forces of economic law on the side of destruction, and does it in a manner which not one in a million is able to diagnose."

Some observers call this message negative and hard-hearted. These so-called compassionate people say we are callous and unsympathetic to be against massive new spending, to be against huge deficits, and to be against the government running our lives. I am sorry, but I respectfully disagree. There is no such thing as true compassion without responsibility; to show true concern, we must take into account not only the short-term effects of our actions but the long-term as well. The suggestions that we simply spend and spend are precisely those which have over the years hurt the poor and the disadvantaged the most. It would be a grave injustice to the people of this nation, and especially to those who deserve a helping hand, to continue down that path when we know from experience that the short-term prosperity we buy now will be followed by years of even greater hardship and suffering tomorrow. It is time in these United States to put our economy back on a sound, steady footing so that people may have lasting jobs and lasting hope for the future.

Inflation has been and remains today the most fundamental economic problem in the United States. It is inflation that caused the recession and it is the reapperance of persistent high inflation that could jeopardize our future. Despite what some may say, it is not necessary to make an agonizing choice between fighting inflation and fighting unemployment. They are part of the same economic challenge, and must be faced simultaneously. The real choice is between policies that work and policies that don't work.

It was against this backdrop that President Ford acted last week in announcing his proposals to seek a $28 billion reduction in the projected levels of government spending during fiscal year 1977 and to return the savings, dollar for dollar, to the American people. The benefits in this program are concentrated among the working people of the country -- the men and women who have borne so much of the burden of high taxes and high inflation, and who badly need and deserve some relief. It is a program designed to place the Federal budget in balance within three years. And it is a program which presents a critical choice to the American people: Whether we will continue down the path toward Big Government or whether we will finally change course before it is too late.

As the President pointed out in his October 9th press conference, this package is not proposed simply as a stimulant for the early part of 1976.

The major economic thrust of the President's program is its longer-run impact on our economy and hence on our society. It is an attempt to blunt the underlying inflationary momentum that we face, which -- if not accomplished -- is likely to prevent an early attainment of full economic recovery. Unless the growth in Federal spending is markedly slowed, the choice in future years will be between higher taxes or highly inflationary budget deficits followed by significant distortions which are inconsistent with a stable prosperity.

The President's proposal is focused on reducing the rapid growth in expenditures and reducing the tax burden imposed upon the American people -- and in a manner which would reduce the risks of inflation. We have become too accustomed to looking at the near term and to assessing only the short-term benefits of what government policies do. As a consequence, we have often lost sight of where we are heading and the ultimate costs that we are imposing upon the productivity of our economic system. It is long past time that we stood back and took stock of where we are going.

As the President pointed out in his State of the Union message last January, "Part of our trouble is that we have been self-indulgent. For decades, we have been voting ever-increasing levels of government benefits and now the bill has come due. We have been adding so many new programs that the size and growth of the Federal budget has taken on a life of its own.

"One characteristic of these programs is that their cost increases automatically every year because the number of people eligible for most of these benefits increases every year. When these programs are enacted, there is a dollar amount set. No one knows what they will cost. All we know is that whatever they cost last year, they will cost more next year.

"It is a question of simple arithmetic. Unless we check the excessive growth of Federal expenditures or impose on ourselves matching increases in taxes, we will continue to run huge inflationary deficits in the Federal budget."

You have hear it said -- as I have -- that it is unrealistic to ask the Congress to set a ceiling on 1977 expenditures as low as $395 billion.

Is it really? The implication of that statement is that Congress cannot come to grips with the problem of accelerating Federal spending -- that spending is now beyond our control -- and that this must somehow be taken for granted when we formulate tax and spending and spending policies.

The critical question is not what will happen if we succeed in slowing the growth in spending but what will happen if we fail. What happens if we remain on the "spending as usual" path through fiscal 1977 and beyond? To me, if we fail, we will have surrendered control over our own economic destiny and we will be struck in the same quicksand that has pulled down other great nations in the past.

It will be exceptionally difficult to hold expenditures to a $395 billion level in the next fiscal year, as the details of the President's budget will clearly indicate, but if we value the future of the country's economy and society we must do so. We do not have the luxury of "spending as usual." Remember: this is not a reduction in spending but a slowing in the growth of spending. Our expenditures will still grow by 7%, high by an historical standards.

As the President said last Monday night: "For several years, America has been approaching a crossroads in our history. Today we are there ... I deeply believe that our nation must not continue down the road we have been traveling. Down that road lies the wreckage of many great nations of the past. Let us choose instead the other road -- the road that we know to be tested, the road that will work."

I have said this once before and I repeat it to you now: what we face in the United States is the classic choice between socialism and freedom.

Thank you.

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ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
TO THE CHATTANOOGA MANUFACTURERS ASSOCIATION
CHATTANOOGA, TENNESSEE OCTOBER 15, 1975

SENATOR BROCK, MR. HAMILTON, AND DISTINGUISHED MEMBERS AND GUESTS OF THE CHATTANOOGA MANUFACTURERS ASSOCIATION:

NOTHING COULD GIVE ME GREATER PLEASURE THAN TO RETURN TONIGHT TO AN AREA OF THE COUNTRY THAT HAS GAINED A WARM SPOT IN MY HEART. WHEN I FIRST CAME TO WASHINGTON SOME THREE AND ONE-HALF YEARS AGO, I WAS TOLD THAT THERE WERE TWO KINDS OF PEOPLE IN THE CAPITAL WHO USUALLY MADE GOOD SENSE: REPUBLICANS AND SOUTHERNERS. EVERY ONCE IN A WHILE, SOME REPUBLICANS WANDER OFF THE RESERVATION, BUT THE SOUTHERNERS HAVEN'T DISAPPOINTED ME ONCE.

MY PLEASURE IN BEING HERE IS CERTAINLY ENHANCED BY THE HONOR OF AN INTRODUCTION BY A MAN WHO IS NOT ONLY A LEADING SOUTHERN SPOKESMAN BUT ALSO A LEADING REPUBLICAN, SENATOR BILL BROCK. AS I AM SURE ALL OF YOU KNOW, BILL

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HAS WON WIDESPREAD RECOGNITION AS A MAN OF THE FUTURE. HE KNOWS THAT THE FUTURE OF THE COUNTRY DEPENDS UPON A SOUND ECONOMY AND PRESERVING OUR FREE ENTERPRISE SYSTEM. HE KNOWS THAT THE CREATION OF JOBS FOR TOMORROW WILL REST UPON GREATER SAVINGS AND INVESTMENT TODAY. AND HE HAS ACHIEVED A SPECIAL RAPPORT WITH THE YOUTH OF OUR COUNTRY WHO WILL BE TOMORROW'S LEADERS. ALONG WITH SENATOR HOWARD BAKER, BILL BROCK IS GIVING TENNESSEE THE KIND OF OUTSTANDING REPRESENTATION IN WASHINGTON THAT YOU DESERVE. I KNOW THAT YOU MUST BE AS PLEASED TO COUNT HIM AS ONE OF YOUR LEADERS AS I AM TO COUNT HIM AS ONE OF MY BEST FRIENDS.

* * *

LET ME TURN NOW TO THE CENTRAL MESSAGE THAT I WANT TO BRING TO YOU TONIGHT: A MESSAGE ABOUT GOVERNMENT SPENDING AND OUR ECONOMY.

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"THE CREDIT OF THE FAMILY DEPENDS CHIEFLY ON WHETHER THAT FAMILY IS LIVING WITHIN ITS INCOME. AND THAT IS EQUALLY TRUE OF THE NATION. IF THE NATION IS LIVING WITHIN ITS INCOME, ITS CREDIT IS GOOD.

"IF, IN SOME CRISES, IT LIVES BEYOND ITS INCOME FOR A YEAR OR TWO, IT CAN USUALLY BORROW TEMPORARILY AT REASONABLE RATES.

"BUT IF, LIKE A SPENDTHRIFT, IT THROWS DISCRETION TO THE WINDS AND IS WILLING TO MAKE NO SACRIFICE AT ALL IN SPENDING; IF IT EXTENDS ITS TAXING TO THE LIMIT OF THE PEOPLE'S POWER TO PAY AND CONTINUES TO PILE UP DEFICITS, THEN IT IS ON THE ROAD TO BANKRUPTCY."

THAT'S STRONG LANGUAGE -- THE FIRE AND BRIMSTONE YOU MIGHT EXPECT FROM A BILL SIMON, OR AS THE NEW YORK TIMES CALLED ME THIS WEEKEND, THE COTTON MATHER OF FISCAL ORTHODOXY.

BUT THAT STATEMENT WAS ACTUALLY ISSUED MORE THAN 40 YEARS AGO AND IT CAME FROM THE DEMOCRATIC CANDIDATE FOR PRESIDENT IN 1932, ONE FRANKLIN DELANO ROOSEVELT. TO MR. ROOSEVELT IT WAS UNCONSCIONABLE THAT THE HOOVER ADMINISTRATION HAD PERMITTED THE NATIONAL DEBT TO INCREASE BY MORE THAN $3 BILLION.

ONE CAN ONLY WONDER WHAT THE FDR OF THOSE EARLY DAYS WOULD THINK OF ALL THAT HAS COME TO PASS IN THE NATION'S AFFAIRS SINCE THEN. CONSIDER JUST A FEW OF THE MOST SALIENT POINTS ABOUT THE GROWTH OF GOVERNMENT.

* UNDER FDR'S PREDECESSOR, GOVERNMENT SPENDING AT ALL LEVELS AMOUNTED TO 10% OF OUR GROSS NATIONAL PRODUCT.

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TODAY IT ACCOUNTS FOR FULLY ONE THIRD OF THE GNP AND BY THE YEAR 2,000, IF RECENT TRENDS PREVAIL, IT COULD BE NEARING 60% OF THE NATION'S ECONOMIC ACTIVITY.

* IT TOOK 195 YEARS OF OUR HISTORY FOR THE FEDERAL BUDGET TO REACH $200 BILLION. NOW WE ARE THREATENING TO DOUBLE THAT AMOUNT IN ONLY 6 YEARS.

* OVER THE PAST DECADE ALONE, FEDERAL SPENDING HAS INCREASED BY 175% WHILE THE ECONOMY HAS GROWN BY ONLY 120%.

* PRIOR TO THE NEW DEAL, THIS NATION DURING ITS PEACETIME YEARS KEPT ITS FEDERAL BUDGET IN SURPLUS FOR FOUR YEARS OUT OF ALMOST EVERY FIVE. SINCE THE BEGINNING OF NEW DEAL, THE FEDERAL BUDGET HAS BEEN IN THE RED IN NEARLY 4 YEARS OUT OF EVERY FIVE, AND OVER THE LAST 15 YEARS, WE HAVE HAD ONLY ONE BUDGET SURPLUS.

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* IT TOOK 74 YEARS FOR THE NATION TO ACCUMULATE A NATIONAL DEBT OF $1 BILLION. NOW OUR NATIONAL DEBT IS CLIMBING AT THE RATE OF MORE THAN $1 BILLION A WEEK.

* PAYING INTEREST ON THE DEBT NOW COSTS US MORE THAN $160 A YEAR FOR EVERY MAN, WOMAN AND CHILD IN THE COUNTRY -- A TOTAL OF $36 BILLION AND CLIMBING.

* AS LARGE-SCALE DEFICITS HAVE MOUNTED, THE FEDERAL GOVERNMENT HAS BEEN FORCED TO BORROW EXTRAORDINARY AMOUNTS OF MONEY IN THE PRIVATE MONEY MARKETS -- MONEY THAT WOULD OTHERWISE BE AVAILABLE TO PRIVATE ENTERPRISE TO BUILD NEW PLANTS AND CREATE NEW JOBS.

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LAST YEAR, FOUR OUT OF EVERY FIVE DOLLARS BORROWED IN THE LONG-TERM CAPITAL MARKETS -- EXCLUDING HOUSING -- WERE BORROWED BY AN AGENCY OF THE FEDERAL GOVERNMENT.

* ALONG WITH THE MOMENTUS GROWTH IN FEDERAL SPENDING HAS COME MOMENTUS GROWTH IN THE FEDERAL BUREAUCRACY. IN 1960, AT THE END OF THE EISENHOWER YEARS, THERE WERE APPROXIMATELY 100 FEDERAL PROGRAMS FOR DOMESTIC ASSISTANCE. TODAY THERE ARE 1009. AND TODAY ONE OUT OF EVERY SIX PEOPLE IN THE LABOR FORCE WORKS FOR THE GOVERNMENT AT SOME LEVEL.

BY CITING THE GROWTH OF GOVERNMENT IN RECENT YEARS, I DO NOT MEAN TO SUGGEST THAT ALL OF THESE SPENDING PROGRAMS

HAVE BEEN ILL-ADVISED OR THAT THEY OUGHT TO BE ABOLISHED. TO THE CONTRARY, IT IS CLEAR THAT MANY OF THE ACTIONS TAKEN BY THE GOVERNMENT HAVE BEEN PROGRESSIVE AND HELPFUL. THE HUMAN HARDSHIPS RESULTING FROM THE RECESSION, FOR INSTANCE, WOULD HAVE BEEN MUCH MORE PAINFUL HAD THEIR IMPACT NOT BEEN CUSHIONED BY EXPANDED BENEFITS FOR UNEMPLOYED WORKERS. THE POOR AND DISABLED PEOPLE OF THIS COUNTRY ARE ALSO MUCH MORE SECURE THAN THEY WERE A FEW YEARS AGO.

YET, IT IS TIME TO RECOGNIZE THAT THIS EXPLOSVIE GROWTH IN GOVERNMENT SPENDING, IN GOVERNMENT DEFICITS, IN GOVERNMENT BUREAUCRACY, AND IN GOVERNMENT REGULATION HAS PLACED THIS COUNTRY ON A ROAD FRAUGHT WITH PERIL. UNLESS WE CHANGE DIRECTION SOON, WE WILL DRIFT RELENTLESSLY -- EVEN AIMLESSLY -- INTO A SOCIETY THAT IS RUN AND DIRECTED OUT OF WASHINGTON AND IN WHICH THE FREEDOMS WE ONCE ENJOYED WILL BE NOTHING MORE THAN A PAGE IN OUR HISTORY.

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ONE OF THE MOST PERNICIOUS RESULTS OF THE HORRENDOUS GROWTH IN GOVERNMENT SPENDING DURING THE PAST DECADE -- AND A RESULT THAT NOW LIES AT THE ROOT OF MANY OF OUR ECONOMIC PROBLEMS -- HAS BEEN THE PERSISTENT RISE IN PRICES.

WHEN THE FEDERAL GOVERNMENT INCREASES ITS SPENDING AND RUNS DEFICITS YEAR AFTER YEAR, ESPECIALLY DURING PERIODS OF HIGH ECONOMIC ACTIVITY, IT BECOMES A MAJOR SOURCE OF ECONOMIC AND FINANCIAL INSTABILITY. THE HUGE INCREASE IN GOVERNMENT SPENDING IN THE 1960S AND 1970S HAS ADDED ENORMOUSLY TO THE AGGREGATE DEMAND FOR GOODS AND SERVICES AND THUS HAS BEEN A MAJOR FACTOR IN THE UPWARD PRESSURES ON PRICE LEVELS.

IN ADDITION, THE HEAVY BORROWING BY THE GOVERNMENT HAS BEEN AN IMPORTANT FACTOR IN FORCING UP INTEREST RATES AND IN THE STRAINS THAT WE HAVE SEEN IN THE FINANCIAL

MARKETS. WITH THE TREASURY DEPARTMENT STANDING AT THE HEAD OF THE CREDIT LINE WITH OVERSIZED BORROWING NEEDS, INTEREST RATES ARE NATURALLY DRIVEN UP, SOME PRIVATE NEEDS GO UNFULFILLED AND PRIVATE INVESTMENT SUFFERS. THIS IS THE ESSENCE OF THE "CROWDING OUT" PROBLEM THAT HAS BECOME SO APPARENT NOW IN THE FINANCIAL MARKETS. EVEN WITH A CONSIDERABLE DEGREE OF SLACK ON THE ECONOMY, ACCESS TO THE CAPITAL MARKETS TODAY IS FOR ALL PRACTICAL PURPOSES LIMITED TO ONLY TOP-RATED COMPANIES. MARGINAL COMPANIES, NEW GROWTH COMPANIES, AND EVEN SOLID COMPANIES WITH LESS THAN A-RATINGS -- PERHAPS SOME OF THE COMPANIES THAT MEMBERS OF THIS ASSOCIATION REPRESENT -- HAVE ALMOST BEEN TOTALLY SHUT OUT FROM THE LONG-TERM SECTOR. AND INTEREST RATES TODAY ARE MORE ILLUSTRATIVE OF THE TERMINAL STAGES OF A BOOM THAN THE EARLY MONTHS OF ECONOMIC RECOVERY. TO BE SUSTAINABLE, THE RECOVERY MUST BE BROAD-BASED; THE CREDIT SYSTEM MUST BE CAPABLE OF PUTTING FUNDS INTO THE MANY DIVERSE SECTORS OF THE ECONOMY. THAT IS WHY IT IS ESSENTIAL THAT AS THE RECOVERY PROGRESSES, THE GOVERNMENT MUST PLAY A

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LESS DOMINATING ROLE IN THE FINANCIAL MARKETS.

AN EVEN WORSE RESULT OF RECENT BUDGETARY PRACTICES IS THE EROSION OF PUBLIC CONFIDENCE IN THE ABILITY OF OUR GOVERNMENT TO DEAL WITH INFLATION. AS GOVERNMENT SPENDING AND DEFICITS CONTINUE YEAR-IN, YEAR-OUT AND INFLATION MOUNTS, INFLATIONARY EXPECTATIONS ARE BUILT INTO THE VERY FABRIC OF OUR ECONOMY. THERE IS A GROWING PUBLIC PERCEPTION THAT THE POLITICIANS IN WASHINGTON WHO PROMISE THE MOST TEND TO DELIVER THE LEAST -- EXCEPT FOR INFLATION.

CLOSELY RELATED TO THESE EXCESSIVE FISCAL POLICIES IN RECENT YEARS HAVE BEEN EXCESSIVE MONETARY POLICIES. OUR

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PRINTING PRESSES HAVE BEEN CHURNING OUT MORE AND MORE CURRENCY THAT IS WORTH LESS AND LESS. INDEED, THE MONETARY SUPPLY DURING THE PAST DECADE HAS GROWN MORE THAN TWO AND ONE-HALF TIMES AS RAPIDLY AS IN THE DECADE BEFORE WHEN WE ENJOYED GREATER PRICE STABILITY. ULTIMATELY, THIS MONETARY GROWTH HAS INCREASED THE UPWARD PRESSURE ON THE RATE OF INFLATION AND INTEREST RATES. AND ONE PRIME REASON FOR THIS MONETARY GROWTH, I MIGHT ADD, HAS BEEN THE NEED TO ACCOMMODATE THE CHRONIC BUDGET DEFICITS.

THUS, EXCESSIVE SPENDING POLICIES AND EXCESSIVE MONETARY POLICIES LIE AT THE VERY FOUNDATION OF MUCH OF OUR INFLATION -- AN INFLATION THAT IN TURN ROSE SO HIGH THAT IT TIPPED US INTO RECESSION. ECONOMISTS DID NOT AGREE AT FIRST THAT IT WAS EXCESSIVE INFLATION WHICH FORCED US INTO A RECESSION, BUT NOW THERE IS WIDESPREAD RECOGNITION OF THAT FACT.

I DO NOT MEAN TO SUGGEST THAT EXCESSIVE GOVERNMENT POLICIES ARE THE ONLY FACTORS BEHIND INFLATION. HIGHER FOOD AND ENERGY

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PRICES HAVE PLAINLY HAD AN IMPACT, ESPECIALLY IN MOST RECENT YEARS. DEVALUATIONS OF THE DOLLAR AND OTHER ACTIONS HAVE ALSO PLAYED A ROLE. BUT I WOULD ARGUE THAT THE UNDERLYING CAUSES OF THE PAST DECADE OF HIGHER AND HIGHER INFLATION

ARE THE CLEARLY EXCESSIVE FISCAL AND MONETARY POLICIES THAT BEGAN BACK IN THE 1960S.

I BELIEVE THE AMERICAN PEOPLE ARE FED UP: THEY ARE FED UP WITH A GOVERNMENT THAT SPENDS MORE AND MORE OF THEIR MONEY WITH SO FEW RESULTS; THEY ARE FED UP WITH MASSIVE DEFICITS; THEY ARE FED UP WITH OVERZEALOUS BUREAUCRATS; THEY ARE FED UP WITH UNEMPLOYMENT AND UNDEREMPLOYMENT; AND MOST OF ALL, THEY ARE FED UP WITH INFLATION. THEY KNOW SOMETHING IS SERIOUSLY WRONG IN WASHINGTON -- AND BELIEVE ME, THEY'RE RIGHT. WE HAVE TODAY IN WASHINGTON MORE GOVERNMENT THAN WE NEED, MORE GOVERNMENT THAN MOST PEOPLE WANT, AND CERTAINLY MORE GOVERNMENT THAN WE ARE WILLING TO PAY FOR.

SOMETIMES WHEN ONE IS LOOKING AT THE NATIONAL ECONOMIC PICTURE, IT IS POSSIBLE TO LOSE SIGHT OF WHAT INFLATION HAS COME TO MEAN FOR THE AVERAGE WORKING FAMILY IN THIS COUNTRY.

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THE HOUSEWIFE GOING TO THE SUPERMARKET LAST YEAR MUST HAVE FELT THAT SHE WAS WANDERING THROUGH A MINE-FIELD, WITH PRICES EXPLODING ON EVERY SIDE. INDEED, AT 1974'S INFLATION RATE OF 12 PERCENT, THE BILL FOR A BAG OF GROCERIES COSTING $10 WOULD TRIPLE IN ONLY 10 YEARS -- TO $31. EVEN AT TODAY'S INFLATION RATE OF 7-8 PERCENT, THE BILL FOR THAT BAG OF GROCERIES WOULD DOUBLE IN 10 YEARS. HOW MANY CAN CONTINUE TO MAKE ENDS MEET UNDER THOSE CONDITIONS?

WHILE EVERYBODY SUFFERS FROM INFLATION, THOSE WHO ARE HARDEST HIT ARE THOSE WHO CAN LEAST AFFORD IT: THE POOR, THE UNEMPLOYED, THE RETIRED, THE DISABLED AND THE DEPENDENT. AT LAST YEAR'S INFLATION RATE, A PERSON RETIRING ON A $500 MONTHLY CHECK WOULD SEE THE PURCHASING POWER OF THAT CHECK CUT BY TWO THIRDS IN ONLY 10 YEARS -- TO ONLY $161. HOW CAN A RETIRED COUPLE BE EXPECTED TO

LIVE IN ANY KIND OF COMFORT WITH THAT KIND OF SHRINKING DOLLAR?

AND I'M SURE YOU NEED FEW REMINDERS OF WHAT'S HAPPENED TO THE BUSINESSMAN WHO HAS TO REPLACE WORN-OUT EQUIPMENT AND MACHINERY. IT'S LIKE THE BAG OF GROCERIES ALL OVER AGAIN. IF YOU BOUGHT EQUIPMENT FOR $1 MILLION, TODAY'S INFLATION RATE WOULD MEAN IT WOULD COST YOU $2 MILLION TO REPLACE IT IN 10 YEARS. IT'S SMALL WONDER THAT WITH THE PERSISTENT INFLA- OF THE PAST DECADE, WE HAVE SUFFERED FROM UNDERINVESTMENT AND THAT MORE AND MORE SERIOUS OBSERVERS ARE BECOMING WORRIED ABOUT THE PROSPECTS OF FUTURE "CAPITAL SHORTAGES" AND MORE UNEMPLOYMENT THAN WE SHOULD HAVE.

EVEN THIS LISTING OF THE CONSEQUENCES OF INFLATION IS FAR FROM COMPLETE, FOR IT DOES NOT TAKE INTO ACCOUNT THE

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FAR-REACHING SOCIAL AND POLITICAL IMPLICATIONS OF CHRONICALLY HIGH INFLATION RATES. INDEED, SUCH INFLATION WOULD PLACE THE ENTIRE FREE ENTERPRISE SYSTEM IN THIS COUNTRY IN JEOPARDY. IF OUR FINANCIAL MARKETS REMAIN UNDER THE STRAIN THEY ARE TODAY, IF UTILITIES HAVE TROUBLE OBTAINING NECESSARY FINANCING TO KEEP UP WITH INFLATION, IF MONEY FLOWS OUT OF THE THRIFT INSTITUTIONS BECAUSE OF INFLATION, IF THE HOUSING INDUSTRY SUFFERS ALONG WITH THE THRIFTS, AND IF THE AIRLINES, THE REAL ESTATE INVESTMENT TRUSTS, AND OTHERS GO TO THE WALL, WHO WILL BE CALLED IN TO THE RESCUE? IF THE RETIRED PEOPLE OF THIS COUNTRY CANNOT PROTECT THEMSELVES AGAINST INFLATION, WHO IS IT THAT CAN SERVE AS A RESCUER? CLEARLY, CONTINUED INFLATION WOULD BRING A MASSIVE EXPANSION OF THE PUBLIC SECTOR AND WOULD THREATEN THE VERY SURVIVAL OF LARGE AREAS OF THE PRIVATE SECTOR.

THOSE WHO ARE SO LIBERAL IN SPENDING OTHER PEOPLE'S MONEY ARE FOND OF QUOTING TO US FROM THE ECONOMIST JOHN MAYNARD KEYNES.

I SUGGEST TO THEM THAT THEY NOT FORGET A VERY CRITICAL PASSAGE IN HIS BOOK ON THE VERSAILLES PEACE CONFERENCE:

"LENIN IS SAID TO HAVE DECLARED THAT THE VERY BEST WAY TO DESTROY THE CAPITALIST SYSTEM WAS TO DEBAUCH THE CURRENCY ... LENIN WAS CERTAINLY RIGHT. THERE IS NO SUBTLER, NO SURER MEANS OF OVERTURNING THE EXISTING BASIS OF SOCIETY THAN TO DEBAUCH THE CURRENCY. THE PROCESS ENGAGES ALL THE HIDDEN FORCES OF ECONOMIC LAW ON THE SIDE OF DESTRUCTION, AND DOES IT IN A MANNER WHICH NOT ONE IN A MILLION IS ABLE TO DIAGNOSE."

SOME OBSERVERS CALL THIS MESSAGE TONIGHT NEGATIVE AND HARD-HEARTED. THESE SO-CALLED COMPASSIONATE PEOPLE SAY WE ARE CALLOUS AND UNSYMPATHETIC TO BE AGAINST MASSIVE NEW SPENDING, TO BE AGAINST HUGE DEFICITS, AND AD TO BE AGAINST THE GOVERNMENT RUNNING OUR LIVES. I AM SORRY, BUT I RESPECTFULLY DISAGREE.

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TO BE TRULY COMPASSIONATE, WE MUST TAKE INTO ACCOUNT NOT ONLY THE SHORT-TERM EFFECTS OF OUR ACTIONS BUT THE LONG-TERM AS WELL. THE PHILOSOPHY OF SPEND AND SPEND, ELECT AND ELECT MAY PAY OFF AT THE BALLOT BOX BUT ULTIMATELY IT HITS US WHERE IT HURTS THE MOST: THE POCKETBOOK. AND THOSE WHO GET HURT THE WORST ARE THE SAME PEOPLE THESE SO-CALLED COMPASSIONATE PEOPLE WANT TO HELP: THE POOR AND DISADVANTAGED. IT IS TIME IN THESE UNITED STATES TO PUT OUR ECONOMY BACK ON A SOUND, STEADY FOOTING SO THAT PEOPLE MAY HAVE LASTING JOBS AND LASTING HOPE FOR THE FUTURE. IF OUR GOVERNMENT WOULD SIMPLY MAINTAIN SOUND, STEADY ECONOMIC POLICIES, THAT WOULD DO MORE TO HELP THE POOR AND NEEDY THAN ANY NUMBER OF ASSISTANCE PROGRAMS COULD EVER DREAM OF DOING.

INFLATION HAS BEEN AND REMAINS TODAY THE MOST FUNDAMENTAL ECONOMIC PROBLEM IN THE UNITED STATES. IT IS INFLATION THAT CAUSED THE RECESSION AND IT IS THE REAPPEARANCE OF PERSISTENT

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HIGH INFLATION THAT COULD JEOPARDIZE OUR FUTURE. DESPITE WHAT SOME MAY SAY, IT IS NOT NECESSARY TO MAKE AN AGONIZING CHOICE BETWEEN FIGHTING INFLATION AND FIGHTING UNEMPLOYMENT. THEY ARE PART OF THE SAME ECONOMIC CHALLENGE, AND MUST BE FACED SIMULTANEOUSLY. THE REAL CHOICE IS BETWEEN POLICIES THAT WORK AND POLICIES THAT DON'T WORK.

IT WAS AGAINST THIS BACKDROP THAT PRESIDENT FORD ACTED LAST WEEK IN ANNOUNCING HIS PROPOSALS TO SEEK A $28 BILLION REDUCTION IN THE PROJECTED LEVELS OF GOVERNMENT SPENDING

DURING FISCAL YEAR 1977 AND TO RETURN THE SAVINGS, DOLLAR FOR DOLLAR, TO THE AMERICAN PEOPLE. THE BENEFITS IN THIS PROGRAM ARE CONCENTRATED AMONG THE WORKING PEOPLE OF THE COUNTRY -- THE MEN AND WOMEN WHO HAVE BORNE SO MUCH OF THE BURDEN OF HIGH TAXES AND HIGH INFLATION, AND WHO BADLY NEED AND DESERVE SOME RELIEF. IT IS A PROGRAM DESIGNED TO PLACE THE FEDERAL BUDGET IN BALANCE WITHIN THREE YEARS. AND IT IS A PROGRAM WHICH PRESENTS A CRITICAL CHOICE TO THE AMERICAN PEOPLE: WHETHER WE WILL CONTINUE DOWN THE PATH TOWARD BIG GOVERNMENT OR WHETHER WE WILL FINALLY CHANGE COURSE BEFORE IT IS TOO LATE.

AS THE PRESIDENT POINTED OUT IN HIS OCTOBER 9TH PRESS CONFERENCE, THIS PACKAGE IS NOT PROPOSED SIMPLY AS A STIMULANT FOR THE EARLY PART OF 1976.

THE MAJOR ECONOMIC THRUST OF THE PRESIDENT'S PROGRAM

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IS ITS LONGER-RUN IMPACT ON OUR ECONOMY AND HENCE ON OUR SOCIETY. IT IS AN ATTEMPT TO BLUNT THE UNDERLYING INFLATIONARY MOMENTUM THAT WE FACE, WHICH -- IF NOT ACCOMPLISHED -- IS LIKELY TO PREVENT AN EARLY ATTAINMENT OF FULL ECONOMIC RECOVERY. UNLESS THE GROWTH IN FEDERAL SPENDING IS MARKEDLY SLOWED, THE CHOICE IN FUTURE YEARS WILL BE BETWEEN HIGHER TAXES OR HIGHLY INFLATIONARY BUDGET DEFICITS FOLLOWED BY SIGNIFICANT DISTORTIONS WHICH ARE INCONSISTENT WITH A STABLE PROSPERITY.

THE PRESIDENT'S PROPOSAL IS FOCUSED ON REDUCING THE RAPID GROWTH IN EXPENDITURES AND REDUCING THE TAX BURDEN IMPOSED UPON THE AMERICAN PEOPLE -- AND IN A MANNER WHICH WOULD REDUCE THE RISKS OF INFLATION. WE HAVE BECOME TOO ACCUSTOMED TO LOOKING AT THE NEAR TERM AND TO ASSESSING ONLY THE SHORT-TERM BENEFITS OF WHAT GOVERNMENT POLICIES DO. AS A CONSEQUENCE, WE HAVE OFTEN LOST SIGHT OF WHERE WE ARE HEADING AND THE ULTIMATE COSTS THAT WE ARE IMPOSING UPON OURSELVES AS WELL AS UPON THE PRODUCTIVITY OF OUR ECONOMIC SYSTEM. IT IS LONG PAST TIME

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THAT WE STOOD BACK AND TOOK STOCK OF WHERE WE ARE GOING.

AS THE PRESIDENT POINTED OUT IN HIS STATE OF THE UNION MESSAGE LAST JANUARY, "PART OF OUR TROUBLE IS THAT WE HAVE BEEN SELF-INDULGENT. FOR DECADES, WE HAVE BEEN VOTING EVER-INCREASING LEVELS OF GOVERNMENT BENEFITS AND NOW THE BILL HAS COME DUE. WE HAVE BEEN ADDING SO MANY NEW PROGRAMS THAT THE SIZE AND GROWTH OF THE FEDERAL BUDGET HAS TAKEN ON A LIFE OR ITS OWN.

ONE CHARACTERISTIC OF THESE PROGRAMS IS THAT THEIR COST INCREASES AUTOMATICALLY EVERY YEAR BECAUSE THE NUMBER OF PEOPLE ELIGIBLE FOR MOST OF THESE BENEFITS INCREASES EVERY YEAR. WHEN THESE PROGRAMS ARE ENACTED, THERE IS NO DOLLAR AMOUNT SET. NO ONE KNOWS WHAT THEY WILL COST. ALL WE KNOW IS THAT WHATEVER THEY COST LAST YEAR, THEY WILL COST MORE NEXT YEAR.

IT IS A QUESTION OF SIMPLE ARITHMETIC. UNLESS WE CHECK THE EXCESSIVE GROWTH OF FEDERAL EXPENDITURES OR IMPOSE ON

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OURSELVES MATCHING INCREASES IN TAXES, WE WILL CONTINUE TO RUN HUGE INFLATIONARY DEFICITS IN THE FEDERAL BUDGET.

YOU HAVE HEARD IT SAID -- AS I HAVE -- THAT IT IS UNREALISTIC TO ASK THE CONGRESS TO SET A CEILING ON 1977 EXPENDITURES AS LOW AS $395 BILLION.

IS IT REALLY? THE IMPLICATION OF THAT STATEMENT IS THAT CONGRESS CANNOT COME TO GRIPS WITH THE PROBLEM OF ACCELERATING FEDERAL SPENDING -- THAT SPENDING IS NOW BEYOND OUR CONTROL -- AND THAT THIS MUST SOMEHOW BE TAKEN FOR GANTED WHEN WE FORMULATE TAX AND SPENDING POLICIES. I KNOW BILL BROCK DOESN'T TAKE RUNAWAY SPENDING FOR GRANTED, AND I DON'T EITHER.

THE CRITICAL QUESTION IS NOT WHAT WILL HAPPEN IF WE SUCCEED IN SLOWING THE GROWTH IN SPENDING BUT WHAT WILL HAPPEN IF WE FAIL. WHAT HAPPENS IF WE REMAIN ON THE "SPENDING AS USUAL" PATH THROUGH FISCAL 1977 AND BEYOND? TO ME, IF WE FAIL, WE WILL HAVE SURRENDERED CONTROL OVER OUR OWN ECONOMIC DESTINY AND WE WILL BE STRUCK IN THE SAME QUICKSAND.

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THAT HAS PULLED DOWN OTHER GREAT NATIONS IN THE PAST.

IT WILL BE EXCEPTIONALLY DIFFICULT OT HOLD EXPENDITURES TO A $395 BILLION LEVEL IN THE NEXT FISCAL YEAR, AS THE DETAILS OF THE PRESIDENT'S BUDGET WILL CLEARLY INDICATE, BUT IF WE VALUE THE FUTURE OF THE COUNTRY'S ECONOMY AND SOCIETY, WE MUST DO SO. WE DO NOT HAVE THE LUXURY OF "SPENDING AS USUAL." REMEMBER: THIS IS NOT A REDUCTION IN SPENDING BUT A SLOWING OF THE GROWTH IN SPENDING. OUR EXPENDITURES WILL STILL GROW BY 7% IN ONE YEAR, HIGH BY ANY HISTORICAL STANDARDS.

AS THE PRESIDENT SAID LAST MONDAY NIGHT: "FOR SEVERAL YEARS, AMERICA HS BEEN APPROACHING A CROSSROADS IN OUR HISTORY. TODAY WE ARE THERE ... I DEEPLY BELIEVE THAT OUR NATION MUST NOT CONTINUE DOWN THE ROAD WE HAVE BEEN TRAVELING. DOWN THAT ROAD LIES THE WRECKAGE OF MANY GREAT NATIONS OF THE PAST. LET US CHOOSE INSTEAD THE OTHER ROAD -- THE ROAD THAT WE KNOW TO BE TESTED, THE ROAD THAT WILL WORK."

ARE WE GOING TO SURRENDER OUR FREEDOMS TO THE SAME PEOPLE WHO HAVE GIVEN US THE WORST INFLATION IN OUR PEACE-TIME HISTORY AND THE WORST RECESSION IN A GENERATION? OR ARE WE GOING TO FIGHT TO PRESERVE THE FREE ENTERPRISE SYSTEM IN THIS COUNTRY -- THE GREATEST ENGINE FOR SOCIAL PROGRESS AND ECONOMIC ADVANCEMENT THAT THE WORLD HAS EVER KNOWN?

LADIES AND GENTLEMEN: THIS IS THE DECISION WE FACE TODAY. IN A VERY FUNDAMENTAL SENSE, IT IS THE CLASSIC CHOICE BETWEEN SOCIALISM AND FREEDOM. AND I HOPE THAT NONE OF YOU WILL LEAVE ANY DOUBT WHERE YOU STAND.

THANK YOU VERY MUCH.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE October 15, 1975

RESULTS OF TREASURY'S 52-WEEK BILL AUCTION

Tenders for $2,090,000,000 of 52-week Treasury bills to be issued to the public, to be dated October 21, 1975, and to mature October 19, 1976, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS: (Excepting one tender of $100,000)

	Price	Discount Rate	Investment Rate (Equivalent Coupon-Issue Yield)
High -	93.387	6.540%	7.00%
Low -	93.254	6.672%	7.15%
Average -	93.326	6.601%	7.07%

TOTAL TENDERS FROM THE PUBLIC RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted
Boston	$ 24,085,000	$ 24,085,000
New York	2,135,685,000	1,428,065,000
Philadelphia	12,955,000	10,955,000
Cleveland	57,400,000	57,400,000
Richmond	57,355,000	57,145,000
Atlanta	15,660,000	15,660,000
Chicago	281,865,000	229,865,000
St. Louis	36,265,000	36,265,000
Minneapolis	29,485,000	29,485,000
Kansas City	6,075,000	6,075,000
Dallas	7,110,000	7,110,000
San Francisco	221,900,000	187,900,000
TOTAL	$2,885,840,000	$2,090,010,000

The $2,090,010,000 of accepted tenders includes 90 % of the amount of bills bid for at the low price and $107,275,000 of noncompetitive tenders from the public accepted at the average price.

In addition, $968,285,000 of tenders were accepted at the average price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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Contact: H.V. Hervey
x2256
October 16, 1975

FOR IMMEDIATE RELEASE

ANTIDUMPING INVESTIGATION INITIATED ON TANTALUM ELECTROLYTIC FIXED CAPACITORS FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today the initiation of an antidumping investigation on imports of tantalum electrolytic fixed capacitors from Japan.

Notice of this action will be published in the Federal Register of October 17, 1975.

The Treasury Department's announcement followed a summary investigation conducted by the U.S. Customs Service after receipt of a petition alleging that dumping was occurring in the United States. The information received tends to indicate that the prices of the merchandise sold for export to the United States are less than the prices for home consumption.

Imports of the subject merchandise from Japan during the period January-March 1975 were valued at roughly $710,000.

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FOR IMMEDIATE RELEASE October 16, 1975

RESULTS OF AUCTION OF 2-YEAR TREASURY NOTES

The Treasury has accepted $3.0 billion of the $4.6 billion of tenders received from the public for the 2-year notes, Series N-1977, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.47% 1/
Highest yield	7.59%
Average yield	7.55%

The interest rate on the notes will be 7-1/2%. At the 7-1/2% rate, the above yields result in the following prices:

Low-yield price	100.055
High-yield price	99.836
Average-yield price	99.909

The $3.0 billion of accepted tenders includes 100% of the amount of notes bid for at the highest yield and $0.6 billion of noncompetitive tenders accepted at the average yield.

In addition, $0.1 billion of tenders were accepted at the average-yield price from Government accounts and from Federal Reserve Banks for themselves and as agents of foreign and international monetary authorities.

1/ Excepting 1 tender of $200,000

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he Department of the TREASURY NEWS
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FOR RELEASE AT 4:00 P.M.

October 17, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,200,000,000 , or thereabouts, to be issued October 30, 1975, as follows:

91-day bills (to maturity date) in the amount of $3,000,000,000, or thereabouts, representing an additional amount of bills dated July 31, 1975, and to mature January 29, 1976 (CUSIP No. 912793 YR1), originally issued in the amount of $2,902,425,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,200,000,000, or thereabouts, to be dated October 30, 1975, and to mature April 29, 1976 (CUSIP No. 912793 ZE9).

The bills will be issued for cash and in exchange for Treasury bills maturing October 30, 1975, outstanding in the amount of $5,604,435,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,708,785,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Daylight Saving time, Friday, October 24, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

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securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on October 30, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing October 30, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

deral financing bank NEWS
WASHINGTON, D.C. 20220
Press inquiries: 202-964-2615

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FOR IMMEDIATE RELEASE

Summary of Lending Activity

October 1 - October 15, 1975

Federal Financing Bank lending activity for the period October 1 through October 15, 1975 was announced as follows by Roland H. Cook, Secretary:

On October 1, the US Railway Association borrowed $34 million against its line of credit with the FFB. The interest rate is 6.896%. The loan matures November 24, 1975.

The Bank made the following advances to borrowers guaranteed by the Department of Defense under the Foreign Military Sales Act:

Date	Borrower	Amount	Interest Rate	Maturity
10/1	Government of China	$10,230,530	8.554%	9/30/83
10/2	Government of China	275,000	8.517%	12/31/82
10/2	Government of Brazil	7,000,000	8.556%	10/ 1/83
10/10	Government of Korea	6,493,140	8.258%	6/30/83
10/10	Government of China	451,884	8.272%	9/30/83
10/15	Government of Brazil	5,434,077	8.266%	10/ 1/83

Amtrak, the National Railroad Passenger Corporation, made two drawings against its line of credit with the Bank:

Date	Amount	Interest Rate	Maturity
10/2	$20,000,000	6.802%	12/1/75
10/8	6,250,000	6.581%	12/1/75

On October 3, the FFB purchased a 5-year, $500 million Certificate of Beneficial Ownership from the Farmers Home Administration. The interest rate is 8.70% paid on an annual basis.

On October 7, the Student Loan Marketing Association borrowed $15 million from the Bank. The interest rate is 6.570%. The loan matures January 8, 1976.

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The FFB made the following loans to utility companies guaranteed by the Rural Electrification Administration:

Date	Borrower	Amount	Interest Rate	Maturity
10/8	Colorado-Ute Electric Association	$3,200,000	7.985%	10/ 8/77
10/8	Murraysville Telephone Company	1,006,000	8.575%	12/31/09
10/10	Cooperative Power Association	2,221,000	8.494%	12/31/09

Interest payments are made quarterly on the above REA loans.

On October 10, the Department of Health, Education and Welfare borrowed $3 million from the Bank under the Medical Facilities Direct Loan Program. The interest rate is 8.524% and the maturity is July 1, 1999.

On October 10, the General Services Administration borrowed $1,149,641.92 against its $107 million commitment with the Bank. The interest rate is 8.625%. The loan matures November 15, 2004.

Federal Financing Bank loans outstanding on October 15, 1975 totalled $15.8 billion.

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INGTON, D.C. 20220 TELEPHONE 964-2041

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Contact: Richard B. Self
Extension: 8256
October 20, 1975

FOR IMMEDIATE RELEASE

TREASURY ANNOUNCES REJECTION OF PETITIONS IN STEEL COUNTERVAILING DUTY CASES

Assistant Secretary of the Treasury David R. Macdonald announced today that the Treasury has decided not to initiate an investigation into the alleged subsidization of steel exports by seven European countries. The United States Steel Corporation on September 18, 1975, petitioned for the assessment of countervailing duties on imports into the U.S. of steel products from the United Kingdom, the Federal Republic of Germany, France, Belgium, the Netherlands, Luxembourg, and Italy. The petition charged that direct and indirect bounties or grants are being bestowed on the manufacture, production and export of steel products by reason of the operation of the value-added tax systems of these countries.

Mr. Macdonald said that the action he was announcing means that the Department has concluded that the information and allegations contained in the U.S. Steel petitions do not on their face describe a bounty or grant and are therefore insufficient to warrant initiation of formal investigations. Treasury has consistently over the years held that rebates or remissions of indirect taxes, directly borne by exported products are not bounties or grants within the meaning of the countervailing duty law. Value-added taxes are, in the Treasury view, such indirect taxes.

Steel imports from these countries in 1974 were approximately $2 billion.

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The Department of the TREASURY NEWS
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FOR IMMEDIATE RELEASE October 20, 1975

WEIR BROWN APPOINTED INSPECTOR GENERAL FOR INTERNATIONAL FINANCE

Secretary of the Treasury William E. Simon announced today the appointment of Weir M. Brown as Inspector General for International Finance.

In this capacity, Mr. Brown is responsible for providing the Secretary and other top Treasury officers an evaluation of international financial activities or programs for which the Treasury Department has primary responsibility. His major tasks will include overseeing the effectiveness and economy of U.S. participation in the international lending institutions (World Bank group, International Monetary Fund, etc.) and assisting the Under Secretary for Monetary Affairs in administering the Exchange Stabilization Fund.

In taking over the job of Inspector General, Mr. Brown succeeds Ralph Hirschtritt, who retired earlier this year. Mr. Hirschtritt is presently serving as a consultant to the Treasury in the international financial area.

Mr. Brown is an economist whose government career began in 1941. After working in the Office of Price Administration and other war-related jobs, he was on active military duty in Washington and overseas, 1943-1946. In 1946, he was employed by the Federal Reserve Board, and in 1948 he moved to the Treasury, where he has held a succession of assignments in international negotiation and policy formulation.

On loan from the Treasury, Mr. Brown for two years was financial adviser in the U.S. aid mission to the Netherlands, from which he returned in 1951 to the Treasury's Office of International Finance to head its European division. From 1952 through 1960, he was in Germany, first as chief of the financial work in the U.S. High Commissioner's office and later as Treasury Representative at the Embassy. After assisting in negotiating the establishment of the Organization for Economic Cooperation and Development (OECD), Mr. Brown was assigned in 1961 as Deputy Chief of the U.S. Mission at that organization in Paris. He was Acting Mission Chief during 1972-74.

Mr. Brown is a graduate of Oberlin College and holds the Ph.D. degree in economics from Brown University. For several months before assuming the position of Inspector General, he was a Federal Executive Fellow at The Brookings Institution. In 1974 he was awarded the Treasury's Exceptional Service Award.

Brown, a native of Illinois, is married to the former Vivian Bauer of Chicago. They reside in Washington.

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FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
SECURITIES AND EXCHANGE COMMISSION
MONDAY, OCTOBER 20, 1975, AT 2:00 P.M.

Exchange Off-Board Trading Rules

I am pleased to be here to present the Department of the Treasury's views on exchange rules which prohibit or limit off-board trading.

The Commission faces the difficult task of determining whether off-board trading rules impose competitive burdens that are neither necessary or appropriate in furtherance of the purposes of the Securities Acts Amendments of 1975. In developing our views regarding this issue, we have been guided by certain basic principles:

First, off-board trading rules should not be considered in the abstract. Our securities markets are not an end in themselves, but instead a mechanism for achieving a broader objective: the efficient delivery of capital to the productive sectors of our economy. We must see the relationship between that end and any changes in the rules which govern the marketplace.

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Second, in general, competition, whether it be in our capital markets or elsewhere, will promote more efficiency and equity and provide greater benefits to the individual.

Third, a central market system is needed, and we should accelerate our efforts to achieve it in the most effective and practicable way.

Finally, changes in any rules should be made with due consideration for their impact -- over both the short and longer term -- on the ability of the securities industry to continue to serve our productive and governmental sectors.

With these considerations in mind, let me re-emphasize that the question before us is inextricably bound to the orderly development of a national market system. In our view, while the transition to a national market system must not be impeded, it must be made with a minimum of disruption in the securities markets.

The Securities Amendments contemplate, and the Commission has proposed, that the new national market system maximize market making capacity by encouraging competition among market makers, thereby increasing the depth and liquidity of our securities markets.

However, it is important that we keep in mind that the essential mechanisms and trading rules for the national market system are not now in existence. In fact, the basic decisions concerning the structuring of the system have not been made. We emphasize this fact because we firmly believe that it would be unwise to abrogate off-board trading rules before these mechanisms and rules have been developed.

Off-board rules constitute an important element of the existing exchange/specialist system. The total elimination of such rules before a substitute system is in place could, in our view, threaten serious disruption of our secondary markets. This disorderliness could impair the capital formation process in this country at a time when our nation's productive sector can tolerate no additional impediments upon its access to capital.

While a consolidated tape reporting last sale data for various securities has commenced operation, several other essential operating mechanisms and rules of a national market system have not yet been established. For example, there is a need to develop a composite quotation system, which possesses a "lock in" capability: that is, an ability to transact a trade immediately based upon the price displayed in the quotation system. Another key element not yet developed is a mechanism for centralizing all limit orders which are held by various market makers in the system. And the technology itself is insufficient. We must still develop appropriate rules for participants in a national market system.

It is not necessary to dwell at this time on the difficulty of achieving the goal of a national market system. The point is that until that goal is attained, the total elimination of off-board trading rules could have serious consequences for our securities markets and the capital formation process in this country.

<u>The Marketability of Thinly Traded Issues and our Capital Markets</u>

The Treasury Department's concerns are of course influenced by the current state of our equities market. The equities market is a vital part of our nation's capital raising system. We need that system to operate as efficiently and effectively as possible to help existing firms expand and to provide the capital money for developing enterprises.

Let me summarize the movement of some vital financial indicators over the last five years which reveal the condition of our markets. Since 1970, the Federal Government, through annual budget deficits ranging from $2.8 billion to $44.2 billion, has increased the cumulative deficit by $111 billion, requiring $117.4 billion net new borrowing in the capital markets. In 1970, our borrowing accounted for 38 percent of new issue dollar volume; this year our share will reach 61 percent.

What has happened during the same period on the private side? The first, and perhaps most noteworthy, development has been virtual disappearance of a new issue market for equities. In the early 1970's, our private sector raised some $13 billion per year in equity capital; in 1974, we raised less than half that amount.

As would be expected, the decline of the equity market was accompanied by an alarming increase in debt to equity ratios. In 1965, 73% of corporate capital was in the form of equity. By last year the percentage had dropped to 53 percent.

Another important phenomenon is the restructuring which has occurred in the private market for capital. Over the past five years, the market access of the so-called lower quality issuers -- that is, the company too small or not profitable enough to warrant a rating higher than Baa (or any rating at all) -- has declined precipitously. In 1971, such companies accounted for 15 percent of the dollar volume in the corporate bond market. The share has dropped steadily ever since and was down to the 7-8 percent range by the first quarter of this year.

Moreover, what market access has been available has been available only on less and less favorable terms. In 1971, only 20 percent of the lower quality issues were limited to the intermediate term -- i.e., not more than 7-10 years. By this year, 4 times as many -- more than 80 percent -- were subject to this limitation. Even high quality issuers have been affected. The percentage of AAA issues limited to the intermediate term doubled over the same period and the average maturity of all new debt issues have fallen ten years since 1973. While all corporate issuers have been affected by inflation, which has generated reluctance of investors to commit for the long term, the bottom class was particularly hard hit.

Finally, the price of what access is available has become higher and higher. Interest costs have skyrocketed. Yield spreads -- the gap between the cost of access for high quality and low quality issuers -- have doubled. Historically the spread between A and Baa rated industrials ranged from 43 to 68 basis points. For 1974, the spreads averaged 107 basis points. And early 1975 figures show spreads as high as 200 basis points separating these classes of securities closely linked in quality.

The Existing System

The continuous auction market, in its present form, is totally dependent upon the specialist system. This system is designed to provide liquid auction markets for all listed securities traded on exchanges. The specialists, while possessing the right to act as sole market maker for particular securities, also bear the obligation to maintain orderly markets in those securities. Specialists also perform the essential function of matching customers' orders within the bid and ask prices.

The system employed by the New York Stock Exchange, and certain other exchanges, effectively grants monopoly privileges to specialists. The value of such privileges is in turn related to trading volume in particular securities.

High trading volume also provides greater trading efficiency for small and medium sized orders. The larger the order flows, the narrower the spread between bid and asked. In this situation, the investors with small or medium sized orders can be assured the best combination of price and transaction time.

However, specialists face difficulties in maintaining continuous auction markets for all securities since many stocks do not enjoy the luxury of a heavy order flow. According to the New York Stock Exchange, in 1974 the 250 most active listed securities accounted for almost 55% of the total stock volume on the exchange and 57% of the total specialist commission income.

But what of the 1800 other listed securities? These comparatively inactive stocks also require participation and positioning on the part of the specialist if he is to fulfill his obligation to make a continuous and orderly market for these issues. Because of the low trading volume, he is required to hold larger positions in these issues for longer periods of time than is the case for more heavily traded stocks. The costs of holding the stock in inventory and risking price changes represent real "costs" to the specialist. Moreover, taking a position in these inactive issues reduces the specialist's ability to undertake less risky and more profitable trading in more active stocks. Thus, less marketable stocks have higher transaction costs than other more marketable issues which have the same risk and return relationship.

In effect, specialists' profits in marketable stocks -- derived both from fees on limit orders and from market making activities -- subsidize their operations in less active issues. This allows specialists to provide a continuous secondary market for all listed securities. To the extent that specialists are required to maintain liquid secondary markets for less active stocks the ability of these companies to raise equity capital is enhanced since the cost of new capital is lowered by the existence of highly visible, liquid secondary markets.

Effect of Elimination of Off-Board Trading Rules on Capital Formation

The elimination of restrictions on off-exchange trading would affect this system by increasing competition between market-makers for certain heavily traded listed securities and, consequently, would reduce specialist profits derived from these securities. As a consequence, we could no longer reasonably require specialists to provide a market in thinly traded stocks. In short, the increased competition would place pressure on the existing system which currently allows specialists' operations in more heavily traded issues to subsidize their activities in thinly traded stocks. The most probable result would be a contraction in specialist activity in thinly traded securities and, perhaps, the end of the maintenance of a continuous market for some listed securities altogether. This event would clearly disadvantage some small and medium sized companies seeking to raise equity capital.

In a perfect world, cross-subsidization of a continuous auction market in one security by raising the costs of transactions in a more heavily traded security would not be the most efficient way to maintain a market. We do not quarrel with this principle. But, we believe that the immediate elimination of off-board trading restrictions would make it difficult for some firms to raise new equity capital during the interim period prior to the onset of a national market system. We acknowledge that the reorganized markets following elimination of off-board trading restrictions may well be more efficient without the maintenance of a monopolistic specialist system that subsidizes continuous auction markets in certain thinly traded stocks. Yet, we believe that until a national market system is fully developed, these efficiencies cannot be realized without significantly increasing the costs of equity financing of many small and medium sized companies at a time when the need for capital is greatest.

If we are to insure a healthy economic recovery, we must encourage American corporations to expand production and thereby create more jobs. To achieve this goal, companies will need capital.

There's no need to restate the results of the various studies which indicate that unprecedented amounts of capital will be required over the next decade to modernize and expand corporate plant capacity. I think it is generally accepted that, no matter which estimate is used, total capital needs are far greater than at any time in our past.

Whether these needs will be met with equity will depend on Federal fiscal policies and on economic conditions. However, an important prerequisite to the issuance of equity securities is the maintenance of strong secondary markets. The immediate elimination of off-board trading restrictions

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would threaten to disrupt the secondary markets for some thinly traded securities and consequently, raise the cost of new equity capital to corporations.

Effect of Elimination of Off-Board Trading Rules on Market Efficiency

The total elimination of all restrictions on off-board trading, prior to the development of the mechanisms and rules of a national market system, could also threaten the efficiency of the auction market trading process for all securities, including the most actively traded. Presently, the specialist system of national securities exchanges provides auction markets for listed securities in which buying and selling interest is centralized and public orders are accorded priority and precedence.

If off-board trading restrictions were eliminated, exchange members could be encouraged to make markets in listed securities away from the exchanges. If this occurred before a national market system was established, the result would be disorderly markets for listed securities and a deterioration of auction market principles. This would occur because member firms would make markets in listed securities without having the communications system necessary to tie the various competing markets together. Member firms would, thus, be unable to determine which of the various off-board market makers offer the best price.

While the technology exists which could allow member firms to display bid and asked quotations through a communications system, no technology has been developed to allow for automatic trading, i.e., the immediate execution of trades based on prices displayed in the communications system.

After a national market system is established, however, it may no longer be necessary to rely entirely on the exchange markets for the preservation of the auction process. Then, competitive forces should dictate to what extent auction principles will survive. In the new system, market makers, whether specialists on the floor, member firms, or third market firms, will compete so that potential buyers and sellers will be easily aware of the best bids and offers in the market at any time. Public orders will be protected against the execution of any transactions in the system at an inferior price by an auction trading rule which would prohibit execution of any transaction at a price less favorable than that offered or bid by a public customer. The composite quotation system, a key element of the new system, will provide the technology to achieve this competition.

Some observers suggest that the elimination of off-board trading rules would help facilitate the development of a national market system. However, the implementation of a national market system will require large amounts

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of capital which can only be infused at intervals. It would appear to be unwise and counterproductive to coerce the securities industry to commit capital to a mechanical system which might result in the adoption of untested and unproven procedures that could prove unworkable or inefficient. Without knowing how long it will take to develop proven procedures for a national market system, it would appear prudent to allow the system and its procedures to evolve without the threat of removal of trading rules that preserve the stability of the existing system.

Treasury Position

For all of these reasons, we would recommend that the Commission not require, at this time, abrogation of rules which prohibit off-board trading, as proposed in Rule 19c-1(A). We do not, however, support the status quo with respect to off-board trading rules. We believe that the present restrictions can be liberalized in a manner that will not threaten the deterioration of exchange auction markets during the

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interim before a national market is in place.

We cannot support the Commission's other two proposals, Rule 19c-1(B) and Rule 19c-1(C), because those proposals would liberalize off-board trading restrictions equally for both agency and principal transactions. In considering proposed modifications to the existing rules restricting off-board trading, we feel it is desirable to distinguish between "agency" transactions and "principal" transactions that are executed off-board by exchange members.

The removal of all barriers to off-board principal transactions would pose a significant threat to the viability of exchange auction markets and the ability of corporate issuers to raise equity capital. Presented with the unrestricted opportunity to make markets in listed securities away from exchanges, many exchange members would do so. If the essential components of a national market system were not yet in place, such off-board market making activity could have a most detrimental effect on the secondary markets for less actively traded issues of smaller companies. In addition, an undesirable fragmentation of the markets for listed securities and a corresponding deterioration of the auction market process of exchange markets could result.

On the other hand, easing restrictions on off-board agency transactions so as to permit members to obtain a better price execution should not create the same consequences. Exchange members would simply not have the economic incentive to divert a substantial volume of agency orders from the exchanges since, in our view, the exchanges would continue to represent the most attractive market for such orders. In fact, permitting members more easily to execute agency transactions off-board to obtain best price execution could encourage even a greater flow of public orders to the exchanges. In addition, the member's fiduciary responsibility to obtain the best execution of its customer's order weighs heavily in favor of liberalizing exchange restrictions on off-board agency transactions.

Accordingly, we would support the adoption of a rule that would ease the restrictions on the execution of agency transactions off-board. We believe that a member of an exchange should be allowed to execute an order for its customer off-board if it believes that a better price can be obtained by executing all or part of the order off-board, provided that all public orders on the floor of the exchange are satisfied. Additionally, we see no reason to prohibit specialists and floor traders from participating for their own accounts so long as they pay a better price.

In conclusion, Mr. Chairman, we recognize that the issues we are confronting are not simple ones. The end of the road is clear: more competitive securities markets, through the establishment of a central market system. However, the means of getting there presents important challenges, for in the process, we do not want to jeopardize the ability of firms to raise capital.

In meeting these challenges, we cannot ignore the fact that the securities industry has faced some major financial and regulatory shocks over the past year. Change is important, and we believe that modification of off-board trading rules is appropriate to bring about needed change. However, premature change in the functioning of the market-place may come at the expense of an industry which has served our nation well for 200 years. We cannot let this happen.

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FOR RELEASE UPON DELIVERY

STATEMENT BY THE HONORABLE GERALD L. PARSKY
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE
HOUSE COMMITTEE ON SCIENCE AND TECHNOLOGY
SUBCOMMITTEE ON ENERGY RESEARCH,
DEVELOPMENT, AND DEMONSTRATION (FOSSIL FUELS)
WASHINGTON, D. C.
WEDNESDAY, OCTOBER 22, 1975, at 1:30 P.M.

Federal Incentives for Synthetic Fuel Demonstration Plants

Mr. Chairman and Members of the Committee:

I am pleased to appear before you today to discuss the question of financial incentives to encourage the private sector to construct a limited number of commercial demonstration plants for synthetic fuels. I plan to provide detailed written responses to the specific questions you have addressed to the Treasury Department and, therefore, will concentrate my testimony today on (1) the general need for federal assistance to induce construction of synfuels plants and (2) the impact of such incentives on the capital markets.

The Administration Program

In his January 15, 1975 State of the Union Message the President proposed a number of measures designed to help achieve energy independence and reduce our vulnerability to the OPEC cartel. One of the key measures was a program

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designed to ensure at least one million barrels per day equivalent of synthetic fuels capacity by 1985. The program is based on the belief that our domestic conventional fuel supplies should be augmented by developing, demonstrating and bringing to commercial production the emerging synthetic fuels technologies. In proposing his program, the President specifically endorsed the use of federal financial incentives where necessary to encourage commercialization of synthetic fuels.

Subsequently, an Interagency Task Force on Synthetic Fuels undertook a comprehensive study of how best to assure early initiation of the commercialization program. The Task Force concluded that the Administration should immediately initiate a 350,000 barrel per day program designed to obtain technical, economic and environmental data on various types of synthetic fuels. The program would be started in a time frame that would permit acceleration to achieve the President's one million barrel per day goal by 1985. The President has endorsed the Task Force recommendation and assigned ERDA the responsibility for initiating them.

One of the major tasks of the Task Force was to identify and evaluate the need for various types of financial assistance to assure commercial development of synthetic fuels. The draft report of the Task Force concluded that:

> "In the absence of Federally provided economic incentives or other policies creating a stable and favorable investment environment, significant amounts of synthetic fuels are not likely to be produced by 1985."

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The incentives evaluated by the Task Force included: loans and loan guarantees; purchase agreements and price supports; tax credits; construction expensing and accelerated depreciation; construction grants or subsidies and government finance. The recommended incentives included federally guaranteed limited-recourse loans, competitively bid price guarantees and competitively bid construction grants.

Treasury Position

The Treasury Department believes it is important to proceed immediately with the 350,000 barrel per day program as part of a national energy program aimed at reducing our vulnerability to the OPEC cartel. Further, we believe that federal financial incentives are needed to accomplish the basic objectives of the synfuels program.

However, in carrying out the incentives program, we have recommended that special care should be taken to (1) keep the use of federal assistance for synthetic fuels development to the minimum necessary to carry out the President's program, (2) ensure that the impact of federal incentives on the capital markets is minimized and (3) ensure that the adoption of a federal incentives program does not halt supplemental actions to improve the climate for private investment in the energy sector -- e.g. through regulatory reform, continued emphasis on research and development and decontrol of energy prices. We believe that these supplemental actions are the best long-run solution to the problem of attracting private capital to develop synthetic fuels. However, we also recognize that major actions like regulatory reform take time and that, until such reform is achieved, federal incentives are necessary to overcome market uncertainty and to ensure that certain types of plants are constructed.

Type of Federal Assistance Needed

The exact type of financial incentive needed to achieve the President's goals will vary from situation to situation depending on the technology, the regulatory environment, the nature of the companies involved, and competitive market considerations. For example, in the case of projects which would provide fuel to a non-regulated sector of the energy industry, the major uncertainty is the future course of prices of competitive fuels. In such cases, some form of price guarantee may be needed to protect the large capital investment should market prices of competitive fuels fall to a low level. In contrast, for projects which will operate in a regulated environment, price guarantees may not be needed but loan guarantees may be necessary to secure financing for the first commercial size plants to overcome the to this hope, but it appears that appropriate regulatory reform may not be achieved in the near future. Accordingly, a range of incentives, including loan guarantees, are necessary to achieve the early commercialization of synthetic fuels. We continue to believe, however, that every effort must be made to minimize the cost of such a program to the American people. Therefore, it is important that whatever financial incentives are deemed necessary be granted by competitive bidding to the extent possible. By using competitively bid loan and price guarantees whenever possible, the government will be able to minimize the amount of federal subsidy to these projects.

Minimizing the Impact on Capital Markets

As the proposed program is implemented, we must also minimize the impact on our capital markets. Any type of federal financial assistance resulting in the undertaking of energy projects which would not otherwise have been undertaken will lead to some redirection of resources in our capital markets. Such incentives increase the demand for capital while having little or no effect on the overall supply of capital. They tend to cause interest rates to rise and channel capital away from more economic to less economic uses. In short, the proposed program of federal incentives will direct capital from other areas of our economy into synfuels production.

technological risks, large size of the projects in relation to the size of the participating companies and regulatory uncertainties. ERDA should, therefore, have a number of incentives available to it and should have administrative flexibility to choose the appropriate incentive based on specific situations. Different technologies and industries might require different incentives at different times, and it cannot now be predicted with certainty that one form of incentive will be best.

The Interagency Task Force concluded, after careful evaluation, that loan guarantees were a necessary type of incentive for the commercialization of certain types of synfuels. All interested agencies were asked to comment on the Task Force conclusions and Treasury opposed the use of such guarantees in its comments. Given the Secretary of the Treasury's responsibility as the Government's chief financial officer, we are particularly concerned with the impact that governmental action will have on the capital markets and overall debt management. We believe federal guarantees and other financial assistance with similar market effects should be kept to a minimum and used only in special cases. Underlying our comments to the Synthetic Fuels Task Force was the belief that regulatory reform and other actions which would remove impediments to the free functioning of the market place might make loan guarantees unnecessary. We would still hold

This diversion, however, is the intended objective of the incentives program which is specifically designed to attract capital into projects for the commercialization of domestic synthetic fuels. The magnitude of the impact of such diversion will, of course, depend on the amount of money involved and the length of time over which such money is raised. Between $8 and 9 billion in investment may be needed to develop a 350,000 barrel per day oil equivalent synthetic fuels capacity. This amount will be invested on a phased basis over the next several years as the plants are constructed. The incentives program designed to induce such investment should, therefore, not cause a great disruption in the capital markets. Given the fact that the annual U.S. investment rate in 1974 was $200 billion, the program is not likely to have a major impact on the general cost or availability of capital. In addition, FEA estimates that as much as $600 billion will be invested in the energy sector over the next 10 years. When viewed in relation to this amount, the capital investment expected to be induced into the initial phase of the synfuels program is not large.

However, almost 50 percent of the $200 billion net flow of funds in U.S. credit markets is already being taken to finance existing Federal, State and local programs. These heavy government borrowing pressures will continue. Therefore, in order to help minimize the impact of ERDA guarantees and price supports on our capital markets, we believe it is essential that the Secretary of the Treasury have the authority to approve the timing and substantial terms and conditions of each loan and price guarantee and any other financial incentive that would have a similar market impact. Loan and price guarantees result in new issues of bonds, notes or other government backed obligations in the capital markets which impinge upon Treasury and other federal agency financings and which can have significant market impact. Prior approval of the timing and terms by the Treasury will ensure effective coordination with the management of the federal debt and will help minimize the impact of such incentives on the capital markets.

Necessity for Regulatory Reform

The proposed incentives program, Mr. Chairman, is important but should not be seen as a substitute for needed regulatory reform. The level of federal financial assistance that will be required to bring about certain types of first generation synthetic fuels plants and, more importantly, the ability of the synfuels industry to free itself from federal financial assistance will be determined to a great extent by how rapidly we develop a more favorable regulatory climate.

Energy prices must reflect the real costs of producing energy if we are to achieve the needed increases in supplies of energy and to discourage the wasteful uses of energy. With respect to synthetic fuels in particular, the difficult problem of arranging private financing for high BTU coal gasification plants has been handicapped because of regulatory commission policies which refuse to allow an all-events, full cost of service tariff for first generation synfuels plants. I would hope this barrier will be removed so that once demonstration plants are proven to operate satisfactorily, the financing of future plants can be handled completely by the private markets.

Likewise, the Synthetic Fuels Task Force Report indicates that a major barrier to electric utilities undertaking medium BTU coal gasification projects is the inability of these companies to attract capital due to their low level of profitability resulting from regulatory policies. Again, the best long-run answer is regulatory reform. In addition, expedition of the various environmental and other regulatory procedures would significantly assist the private capital market in responding to our nation's energy needs. The faster we can move on these needed improvements in the regulatory environment, the less will be the need for Federal Government financial assistance. While I strongly believe that this is the approach we ultimately must follow, in order to assure the private financing of the synthetic fuel demonstration plants in the interim, there is need for a range of financial incentives. Therefore, we urge the enactment of the $6 billion loan guarantee authority, so that ERDA will have the flexibility to provide whatever assistance is needed to induce the construction of these plants.

Mr. Chairman, that concludes my prepared statement, and I will now be glad to respond to any questions you might have.

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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
SUBMITTED TO THE SENATE SELECT COMMITTEE ON
NUTRITION AND HUMAN NEEDS
TUESDAY, OCTOBER 21 AT 10:00 A.M. EDT

I welcome the opportunity to submit this statement and to express my views on the Food Stamp Program and on the complex network of income transfer programs of which it is a part.

Let's begin by trying to put the food stamp program in perspective. We know that when the program was started in the early 1960s, one of its main objectives was to help poor Americans to obtain a nutritious diet. That is a compelling, humane goal. I strongly support the basic objective of the Food Stamp Program: poor people must have the ability to purchase a nutritionally adequate diet.

The problem with food stamps is that we seem to have lost sight of that objective and have ended up instead with a program that also serves as a kind of income support for many others who do not truly need assistance. Eligibility guidelines are so loosely drawn and the program has grown so rapidly -- from under one million recipients per month in 1965 to 17 million per month in FY 1975, to an anticipated 19 million per month during FY 1976 -- that it practically invites people to take advantage of it.

I must say that I was surprised at the press coverage my brief remarks about food stamp chiselers and rip-off artists were given. Outside Washington, at the grass roots level where people can readily see what's going on in their communities, there is a widespread feeling that undeserving people are abusing the program:

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-- One of the national news magazines reported recently that it had conducted dozens of interviews across the country and found a "widely held belief that the food stamp program is the most abused of all plans to help the needy." (U.S. News, September 1, 1975.)

-- Senator Talmadge, a distinguished member of this Committee, said earlier this summer that every time he goes home to Georgia, he hears "frequent complaints about abuses that citizens have noticed." "Increasingly," he said, "hardworking, taxpaying Americans are getting fed up with and disgusted with the abuse that is rampant in the program."

-- Senator Buckley has said that "shocking Federal regulations have turned a truly working and humane food stamp program into an administrative nightmare and a public rip-off."

-- In Chicago, the Tribune called it a "fiasco" and said "many of us have seen the abuses first hand ..."

-- A county Assistant District Attorney for Little Rock, Arkansas, said in his testimony before the Senate Agriculture Committee on October 7 that from his five-month investigation of 500 food stamp cases of families with five persons or more who paid nothing for food stamps, the degree of recipient fraud was as high as 50 percent. A legislative Joint Auditing Committee in Arkansas has been studying errors in the program. Similarly, a Georgia State Senate Food Stamp Study Committee has made a number of recommendations for reform after discovering numerous inequities and instances of abuse.

My mail has reflected this feeling, too:

-- A woman from Lynnwood, Washington said that "the Food Stamp Program has gotten completely out of hand. There are getting to be fewer and fewer working people and more and more who feel the government owes them a living."

-- And a woman from Montclair, New Jersey has openly written about friends providing false information to obtain food stamps, because "it is so easy to lie" about their income.

Indeed, reflecting a deepening public sentiment, over 100 members of the Congress are now supporting legislation which would provide strong reforms.

The sad part about this is that when funds are diverted from the needy to undeserving recipients, fewer funds are available to help the truly poor. And when people believe that a program for the poor is being badly abused, political support for the program evaporates and eventually the program may be gutted. In both cases, the poor are the ones who are hurt.

Clearly, we must end the abuses and ensure that the Food Stamp Program becomes as fair and efficient as possible. If we do not, we risk the real danger of losing public support for a program we do need to help the poor.

The immediate problem is to redefine the purpose of the Food Stamp Program and to assure that it fully serves that purpose. The President's program, which Secretary Butz presented to the Senate Agriculture Committee yesterday, would accomplish the necessary reforms. Today we have a program which permits participation by the truly poor, and also by those who are temporarily unemployed (even though they may have substantial assets), those who are not earning income because of personal choice, and those who have incomes above the poverty line but who are able to qualify because of the program's liberal eligibility criteria and/or shoddy administration in State welfare agencies. These are the "legal abusers" -- those who are indeed eligible and who take advantage of the program even though they are not in the category of the truly poor who the program was created to serve.

Apart from these "legal abusers" of the program, however, it was more flagrant abusers I had in mind when I spoke of the Food Stamp Program as a haven for chiselers and rip-off artists. Chiselers and rip-off artists in my view are those people who take advantage of the program in a manner which breaks the law. They may be participants who supply inaccurate information on complex application forms which are not adequately checked in State issuing offices. They may be clerks in grocery stores who accept stamps for non-food items or exchange money for stamps. They may be mail clerks who pilfer authorization-to-purchase cards. They may even be welfare workers who create fictitious cases in order to obtain food stamps illegally.

My point is that this program is open to abuse by those who want to cheat it. The program circulated food stamps with a face value totaling $7 billion in FY 1975, of which the Federal share -- or the so-called "bonus value" -- was $4.4 billion.

In the same year, a total of 29.4 million people used the program at some time during the year. Because many people qualify for only a few months, the average monthly rate during that year was 17 million. The estimated number of <u>eligible</u> Americans, however, was 40.6 million.

The program is administered locally through 3,034 project areas serving the entire population. Stamps are redeemed for food at some 247,000 certified wholesale and retail food outlets. The program makes every food checker in every retail store a kind of law enforcer, responsible for assuring that only food items are bought with stamps.

The sheer size of this program, the potential for abuse -- and increasing public awareness and concern about that abuse -- make reform vital.

In this statement, I will review the importance of our transfer payment programs as an expanding share of our Federal budget expenditures and will point out the implications for the future if these programs continue to grow at current rates. I will then turn to the growth of the Food Stamp Program, which has become an important income transfer program. I hope my discussion will show that the original objectives of the program have changed substantially over time through legislative modifications which have had an immense impact on the program's growth. I will discuss problems of abuse in the program. I will also describe the President's proposals for reform which will concentrate benefits on those truly in need and simplify administration of the program.

TRANSFER PAYMENT PROGRAMS IN THE FEDERAL BUDGET

I would first like to describe the Food Stamp Program, and other social welfare programs, in the context of our national tax and transfer system, and as a growing share of total Federal Government expenditures.

In fiscal year 1976 the Federal Government will be spending about one billion Federal dollars a day, or about $370 billion compared to spending of $196.6 billion in FY 1970, $118.4 billion in FY 1965 and $68.5 billion in FY 1955.

Fifty-two percent of this increase since 1955 has been the result of a dramatic growth in Federal payments to or on behalf of individuals. These payments include outlays for social security, unemployment assistance, veterans' benefits, Medicare, Medicaid, housing payments, public assistance, and other payments (Exhibits 1 and 2). As a result, these transfer payments have grown substantially as a portion of total budget expenditures. They accounted for 19 percent of Federal spending in fiscal year 1955, compared to 27 percent in 1965, 32 percent in 1970, and 46 percent in the current fiscal year (Exhibit 3).

This growth in relation to the GNP is demonstrated by the fact that from FY 1955 to FY 1974, Federal outlays for these payments increased at an average annual rate of 8.8 percent in real terms -- that is, after adjusting for price changes. This is more than double the average annual real GNP growth rate of about 3.5 percent (Exhibit 4)! Interestingly, at least three-fourths of the 8.8 percent growth rate was accounted for by new programs and expansions of existing ones -- not by growth in the beneficiary population.

A Treasury study shows that growth of transfer payment programs since the mid-sixties has resulted in a growth in total beneficiary households from 26.3 million in 1967 to 32.4 million in 1974, a 23 percent increase. Because of even more rapid growth in benefits per recipient, total outlays rose from $49.8 billion to $99.7 billion, a 100 percent increase. By comparison, the number of taxpayers grew by only 14 percent, while tax receipts grew some 60 percent (Exhibits 5 and 6).

The rapid growth in transfer payments to individuals since 1955 gives cause for very serious concern about future spending. I would like to compare potential future growth under two different assumptions.

OMB's Mid-Session Review of the 1976 Budget projects payments to individuals of $232 billion in FY 1980, or 48 percent of total projected Federal outlays of $483 billion, in current dollars. These projections assume continuation of existing law -- no new programs and no broadening of the coverage of existing ones. This compares with an estimated $147.6 billion in payments for individuals in FY 1975, or 45 percent of total Federal outlays of $324.6 billion.

Another projection, by Treasury, based on the historical trend since 1955, indicates that Federal payments for individuals could reach $277 billion in 1980, more than 50 percent of a $550 billion total budget. This projection assumes that new programs or the expansion of old programs would be introduced at the same rate as during the past two decades. Although this is clearly not a forecast of what the Government will actually be spending in 1980, it does indicate where the recent trend of rapid growth in transfer payments programs could help take us (Exhibit 7). It certainly explains this Administration's strong desire to bring the growth of the Federal budget under control.

What does a future of such unrestricted Federal expenditures for income transfer programs imply for the growth of the economy and for individual Americans? We face a variety of problems in this regard:

(1) The ability of the Federal Government to operate a balanced budget and achieve a reduced tax burden is

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undermined by runaway expenditures. This is of deep concern to the Administration because increases in government expenditures on such consumption-oriented programs will tend to reduce the savings and capital formation that are essential for the future growth of our economy.

(2) In receiving Federal benefits targeted for specific needs, the individual recipient tends to lose his freedom of choice to use these resources as he might want. We should be able to develop a more flexible system which grants the recipient more freedom in choosing how to spend his resources, while still maintaining overall program control.

(3) In the past we have tended to create new welfare programs for specific needs -- whether food aid, housing assistance, aid for dependent children, or assistance to the handicapped. In all, we have created about 20 separate programs of public aid and relief of various types and purposes.

The overlaps that have resulted from this proliferation of programs have become a major part of our present welfare problem. Under the current system, one family may be receiving aid from the Federal Government under as many as eight or ten different programs. In the case of food stamp participants, over 90 percent received benefits from two or more programs in November 1973. Incompatible eligibility requirements among these programs make it nearly impossible to achieve an equitable distribution of welfare benefits among households with equal needs and, furthermore, may lead to unintended income distributional impacts. According to a Treasury study of the tax and transfer payment system in FY 1974, nearly 15 percent of all families participating in programs with income eligibility criteria,[1] such as Food Stamps, Aid for Dependent Children, or Medicaid, had total cash and in-kind incomes over $9,000 and some four percent of these families had incomes in excess of $18,000. While the study found that income is in fact redistributed from those with incomes above $9,000 to those with less than $9,000, which is a basic objective of the transfer system, it also showed that eight million familes with incomes over $12,000 received $24 billion in benefits, providing ample evidence that reform is needed just to make our system fair (Exhibits 5 and 6).

1/ In FY 1974 these represented about 27 percent of Federal outlays for all transfer payment programs.

In the face of the rapid, uncontrolled growth of our Federal transfer payment programs and the real problems of inefficiency caused by program overlaps, serious thought must be given to the need for overall reform. President Ford is firmly committed to the rationalization of our welfare program structure and has specifically asked the Executive agencies to develop options for such reform. The Administration will be working on these options in the near future. In the short term, the Food Stamp Program can be reformed to reduce abuses and unnecessary costs. The Dole-McGovern bill, S.2451, the Buckley-Michel bill, S.1993, and the Administration bill announced yesterday, are all demonstrations of a very widely shared belief that the program needs reform. In the longer term, however, I personally believe we should fold the Food Stamp Program and other categorical programs into a comprehensively reformed welfare program.

ORIGINS AND OBJECTIVES OF THE FOOD STAMP PROGRAM

Having placed it in this general context, I would now like to discuss the origins and objectives of the Food Stamp Program.

The present Food Stamp Program was initiated in 1961 under a 1959 Congressional authorization to set up a pilot program to study the use of food coupons as an alternative to direct distribution of surplus food commodities. In 1961, almost 6.5 million people were receiving direct food aid under the Food Distribution Program, but there was increasing concern that what was essentially a program to dispose of surplus food did not provide nutritionally balanced and adequate diets. Food stamps were seen as a preferable alternative to direct food aid, and consequently, eight pilot projects, costing $13.2 million in FY 1962, were begun. By 1964 the pilot program had expanded to cover forty counties and three large cities in twenty-two states. As one of the weapons of the "War on Poverty" it was converted from a pilot to an operational program under the Food Stamp Act of 1964.

The Food Stamp Program appealed to many because it promised to tackle hunger and malnutrition, and at the same time to reduce the massive farm surpluses that were a burden to farm prices and U.S. taxpayers. Section 2 of the 1964 Act described the program's purposes and revealed Congressional priorities for it:

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"... to strengthen the agricultural economy; to help achieve a fuller and more effective use of food abundances; to provide for improved levels of nutrition among economically needy households through a cooperative Federal-State program of food assistance to be operated through normal channels of trade ..."

The latter purpose of the program was stressed by the Chairman of the House of Agriculture Committee who stated in debate in the House in 1963:

"It is difficult for me to understand how anybody could vote against giving food to hungry Americans when we know our warehouses are bulging with vital food throughout this land."

Given the large sums being expended at that time for farm production subsidies and price supports, the cost of food stamps of less than $20 million seemed like an incidental expense. A relatively small program, it also had the considerable popular appeal of increasing the food purchasing power of the poor. But the purposes of the program have been extended and broadened by subsequent legislation, court decisions, and administrative program changes, so that those origninal purposes have been significantly altered.

A major redirection of program objectives, and a large increase in program costs resulted from the 1969 White House Conference on Food, Nutrition, and Health. One result of the Conference was that a strong emphasis was placed on the nutritional aspects of the program. Another was its recommendation that the "individual and family commodity program be phased out as rapidly as it can be replaced by a universal reformed Food Stamp Program."

The Conference led to important administrative changes in the program, which were implemented pending the passage of legislation by Congress in 1971. Increases in the food stamp allotment to allow a uniform nutritionally adequate diet, and uniform national eligibility standards including national standards for permitting deductions from gross income, led to a dramatic spurt in participation and costs. The number of people using food stamps, which had grown slowly in the 1960's, suddenly jumped under the stimulus of these measures from 3.8 million in January 1970 to 6.5 million in June 1970 and 10.5 million in June 1971 (Exhibit 8).

Major amendments to the Act in 1971 underlined the shift in program emphasis as Congress stressed the need to upgrade the nutritional quality of the diets of the poor. As a practical matter, reducing agricultural surpluses is no longer a significant program purpose.

Despite the initial goal of the program to assure a nutritionally adequate diet for participants, it is becoming increasingly evident that food stamps do not always achieve that objective. Improving nutrition is a difficult problem related to consumer information and established eating habits to which I know this Committee has given considerable attention. But there seems to be a growing consensus that the program does not have the nutritional impact is was intended to have.

Several studies summarized by Kenneth Clarkson in his study "Food Stamps and Nutrition" for the American Enterprise Institute indicate that nutrition did not increase significantly for participants, compared with nonparticipants in the same income bracket. Nutrition seems to be more highly correlated with education, especially nutrition education, than with buying power.

Just providing the opportunity to purchase a nutritionally adequate diet is not likely to result in much upgrading of nutrition. Therefore, I think it is accurate to conclude that the Food Stamp Program is now a "food expenditure support" -- rather than a nutritional -- program for many of its users, while for many others it is a form of income maintenance. The program provides a constant source of food support for many chronically poor or disadvantaged people, including many of the aged. But it is also used by many people who have lost their jobs, and by people who voluntarily choose not to work. The large increase in participation as a result of unemployment in the past year indicates that the program is one of the first sources of relief to which unemployed -- but not necessarily poor -- Americans turn when faced with an economic set-back.

GROWTH IN PROGRAM COST AND PARTICIPATION

In terms of both participation and cost to the Federal Government, the growth of this program has been startling. The number of persons participating increased from 143,000 persons in FY 1962 to 17.1 million in FY 1975 (Exhibits 8 and 10). In FY 1975 alone it grew by more than four million. The cost to the Federal Government of the stamps (the bonus value) has grown at even greater rates, rising from $13.2 million in FY 1962 to $4.4 billion last year (Exhibits 9 and 10). A significant part of this increase has been the result of the replacement of the Direct Food Distribution Program by the Food Stamp Program and by the extension of this program to every county and to U.S. territories. Nonetheless, the total number of persons participating in the two programs combined, and their cost have risen by very large amounts. While the use of these programs was rising rapidly, the number of persons with incomes below the poverty line declined 27 percent from 1965 to 1974.

These increases were the result of the increased number of communities offering the program, which rose from 1,489 in 1969 to 2,027 in 1971, reduced purchase requirements, the increased number of eligible households, and the increased participation rate of those eligible. These changes caused much of the rise in the number of participants per project area, from just under 2,000 in 1969 to 4,600 in 1971 (Exhibit 11). Similarly, the bonus value more than doubled from FY 1969 to 1971, from $6.62 to $13.55 per person per month (Exhibit 12).

After the large expansion in the program during 1970-71, its growth slowed. During FY 1972 and FY 1973, only about 100 new project areas were added each year.

In FY 1974 and 1975 the program again began to expand at a rapid rate as new project areas came into the program in the last half of FY 1974. Participation also increased in response to the virtual elimination of the Food Distribution Program and implementation of the Food Stamp Program in all counties in the U.S.

However, the dramatic program growth in this period was due to four main factors:

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(1) The continuing inflation in food prices which automatically raises the value of the stamps. The sharp rise in food prices in 1973 and 1974 was, of course, an important element of the general inflation that swept through the economy during those years. Because of the escalator provision that is included in the law, the value of stamps available to recipients is increased every six months. For example, the food stamp allotment for a four-person family rose from $112 in December 1972 to $162 on July 1, 1975, simply because of the increase in food prices.

(2) The increase in unemployment as a result of the recession, which increased the number of eligible participants. These unemployed may show greater participation rates because they may be more alert to the assistance programs available to them; many have access to employee organizations which inform them of the availability of relief programs like food stamps.

(3) The increased costs of housing, medical services, and other deductible items, which can be deducted from gross income to determine eligible income, expanded eligibility and, for some, increased the incentive to participate. As the cost of housing, medical services, child care, and education have increased, the value of allowable deductions -- from gross income to determine eligible income -- have increased sharply. This means that the eligible income of a person with a fixed gross income drops as the value of his deductions increases. As a result, he pays less for his allotment of stamps, while the bonus value he receives goes up, thus increasing the cost of the program.

(4) The implementation of the program in Puerto Rico. In fiscal year 1975, the Food Stamp Program was first extended to Puerto Rico, under a requirement of the 1971 amendments to the Food Stamp Act, a change the Administration resisted. By the end of the fiscal year, 1.4 million Puerto Ricans were participating in the program out of a 3.2 million total population. Another 21 percent of the population is estimated to be eligible, which could

raise even further the cost of the program there from its expected level for fiscal year 1976 of about $550 million. As a result, the Food Stamp Program has become a major, and controversial factor in the economy of the island. Food stamps may actually have become a disincentive to work. I draw the Committee's attention to an editorial in the San Juan Journal of August 22, 1975, which quoted the Director of the Puerto Rico Manufacturers Association and the President of the Association of General Contractors, who say some industries are in danger of shutting down operations because they cannot find workers. This is occurring in spite of the fact that unemployment on the island is 20 percent. The editorial concluded that the Food Stamp Program "is cultivating, encouraging, and abetting a generation of loafers in Puerto Rico." A coffee plantation owner in Puerto Rico has said that for the first time he cannot get labor to pick coffee beans, which are rotting on the trees.

A major proportion of the increased participation in the program during FY 1975 came from households which were not receiving some other form of Federal assistance (such as AFDC or SSI) -- the so-called "non-public assistance households." Participation by these households increased from a monthly average of 5.3 million in FY 1974 to a monthly average of about 8 million in the second quarter of FY 1975. For the first time in the history of the program, the number of households not receiving some other form of Federal welfare were participating more heavily in the program than were public assistance households. This new trend in participation is a demonstration of the very substantial use of the program as a form of unemployment relief.

These rapid cost increases caused by the expansion of the program make it essential that we now reevaluate it. These kinds of cost increases are not inevitable or acceptable without question, just as the large anticipated increases we project for our total national transfer payment programs should not remain unquestioned.

We must refocus this program on the goal of providing the truly poor an opportunity to purchase an adequate diet.

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Future Program Expansion

There has been some discussion about future participation and costs of the program. The Chairman of this Committee mentioned several unofficial USDA projections in his letter to me on August 15, which indicated that by 1980 the cost might be only slightly higher, or even lower than in 1975, while other preliminary estimates by USDA showed that the cost could double, depending on assumptions about the recovery of the economy and our ability to reduce inflation.

Because of the significant impact of inflation and unemployment on this program, projections of future costs and participation will obviously span a wide range -- depending on the course of the economy over the next few years and whether or not this law is changed. If the recovery continues as now projected and if we are able to avoid reigniting the rapid inflation of the past several years, there is a good chance that the growth in the Food Stamp Program will slow markedly. On the other hand, if the recovery is aborted and inflation again surges to the double digit level, the program under the current law will continue its fast growth.

Even if the first scenario of continuing improvement in economic activity and reduced inflation is achieved, there is still an opportunity for substantial expansion in this program under current law. As I pointed out earlier, 40.6 million persons were eligible for the program in FY 1975, though only 29.4 million of them actually participated during that year. So another 12 million people could, potentially, take part in the program without any change in economic conditions. As more people learn about this program and learn how to use it -- and perhaps abuse it -- we can expect participation and cost to continue rising if the law is not changed to tighten eligibility and focus the program on those who need it.

Any increases that might result under the current program could be dwarfed by increases caused by greater liberalization of the program. A self-certification plan, which was passed by the Senate and reported by the House Agriculture Committee (H.R. 7887) this year, would permit participants merely to sign a statement saying they believe they are eligible. This plan could raise the error rate and would invite wholesale abuse of food stamps. For example, if a family of four fraudulently collected a double or triple allotment, it would have as much as $486 in stamps to spend on food in a month. This large amount of food purchasing power is an encouragement to an abuser to seek out a "buyer of food stamps" who would pay cash for the stamps (at a discount from face value), then turn around and redeem the stamps at face value.

For example, a family group in New Mexico was certified, during a five-month period, for more than $12,000 in food stamps for which they paid only $234.00. They drove around the state in a truck collecting stamps, using their real names but false addresses and claiming families of eight or nine members. Self-certification would simply provide greater opportunity for abuse of this kind. Such changes in the program would be simply unacceptable because of the cost increases they would generate.

PROBLEMS OF ABUSE

The Food Stamp Program, by its very nature, is prone to abuse of many kinds.

Food stamps are a form of currency. This currency is in wide circulation throughout the country, and now in Puerto Rico, the Virgin Islands and other territories. Honesty in the program requires a great deal of self-policing by all those who handle the stamps. In fiscal year 1975 an average of about 17 million recipients a month received stamps, and a total of 29 million people received them during that year. The program involves thousands of project areas, and several hundred thousand wholesale and retail stores. A program of this size and participation, involving transactions in billions of dollars of legal tender, is simply fair game for abuse.

Abuse is by no means limited to recipients. The evidence indicates that abusers are of three main types. First, welfare administrators and caseworkers who certify eligibility for stamps; second, recipients who obtain and use the stamps; and third, those who handle the stamps in the course of their exchange for real currency, including food store retailers and wholesalers and others.

The main types of fraud and other abuse include:

(1) Theft of stamps

(2) Caseworker fraud in issuance of stamps to recipients

(3) Recipient misrepresentations about income or household size, assets, value of deductions, and other factors that determine eligibility and participation

(4) Discrepancies between shipments to disbursing points and reported cash received and coupons redeemed

(5) Illegal acquisition or use of stamps by individuals, retailers, or others

(6) Counterfeiting

Examples of fraud cases are shown below which are illustrative of each of these types of abuse. Briefs of these, and other cases appear in Annex A.

(1) Theft of food stamps may occur in the mailing and transfer of stamps or at the issuing office.

-- On August 6, 1974, a Columbia, South Carolina mail carrier was apprehended after duty with food stamps, intended for someone else, in his possession.

-- Coupons worth $91,970 were burglarized from a Food Stamp Issuing Office in Youngstown, Ohio on December 29, 1972. Some of these stamps were later traced to incidents of individuals exchanging food stamps for cash.

(2) Local employees who administer the program sometimes attempt to manipulate it to their personal benefit.

-- Several caseworkers in San Antonio, Texas conceived an elaborate scheme of issuing

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authorization-to-purchase cards (ATPs) to ineligible persons under their own or fictitious names. After the ineligible recipients obtained the stamps, a third group of persons collected the stamps from the ineligible persons -- who were paid a fee -- and then returned the food stamps to the caseworkers, who apparently sold the stamps for cash.

-- A former supervisor of the Sacramento, California Department of Social Services obtained authorization-to-purchase cards for other ineligible persons to cash. The value of food stamps received was estimated at $250,000.

(3) Misrepresentations by recipients about income or household size may be unintentional or deliberate but frequently result in an overissuance of food stamps to which the recipient is not entitled.

-- A resident of Virginia obtained food stamps from four counties in Maryland by giving false information about her residence, income and family composition.

-- A person in Little Rock, Arkansas, recruited individuals to apply for food stamps using false names, addresses, social security numbers and fictitious dependents. The recipients returned the stamps to the organizer of the scheme, who sold them for cash, then paid the recipients a fee.

(4) Audits have turned up discrepancies in disbursements and redemption of stamps in various programs.

-- An audit in Cleveland, Ohio revealed that one issuing center had overissuances of $6,476 and underissuances of $11 for five months in 1974.

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-- An investigation of the Cook County Department of Public Aid in Illinois disclosed that many authorization-to-purchase cards for fictitious persons were consistently cashed by certain cashiers at several currency exchanges.

(5) Individuals and retailers may acquire or use stamps illegally.

-- There are many cases in which retail stores sell ineligible non-food items such as soap, paper products, or toiletries for stamps.

-- A drug addicit in San Francisco cashed $1,500 worth of authorization-to-purchase cards for another addict in a four month period, and received payment for his services in food stamps and drugs.

-- An individual in Louisiana charged gasoline and cigarettes on account and then paid the bills with food stamps.

-- A woman charged with speeding in South Carolina paid her bail with food stamps.

-- During 12 visits to his store, a retailer in Bay City, Michigan sold investigators 172 ineligible items and he also paid them $1,081 in cash for $1,575 of food stamps.

-- A grocery store owner in Syracuse, New York collected authorization-to-purchase cards from approximately 75 food stamp recipients and obtained their stamps for them. The owner also purchased cards for cash and accepted food stamps for payment of past due bills.

(6) A small amount of counterfeiting has occurred.

-- Three persons were arrested in Fullerton, California on May 28, 1974, with $350,000 of counterfeit coupons in their possession. Ultimately, counterfeit coupons worth a total of $750,000 were seized as part of the investigation.

Means of Discovering Fraud

The system for discovering fraud and error is weakly structured and the programs of investigation, prosecution, retrieval of funds, and related administrative actions vary tremendously among the states, and are loosely coordinated at the national level. Only 14 States have laws which make abuse of food stamps a State offense. Many of the others do not even have laws that would make intentional misstatements by individual recipients a criminal violation, although most recipient fraud constitutes Federal criminal conduct under the Food Stamp Act.

I will attempt briefly to sketch what I understand to be the "system" by which abusers are found out and fraud corrected. First, the state and local welfare agencies are responsible for detecting and investigating errors and fraud related to the issuance of stamps, but discovery of such cases is most often the result of audits by USDA. When complaints are received from any source, the local agencies conduct initial investigations to establish a claim. When they find, for example, that a participating household has fraudulently obtained coupons, the agency must demand repayment. Only when collections cannot be obtained administratively do these agencies go to court. But States must reimburse the Federal Government for all major losses whether or not they collect from the abuser.

This is a critical fact. It means that the States have a fundamental economic reason to avoid seeking out abusers. Food stamps themselves are paid for entirely from Federal funds. A State's fiscal obligation is limited to one-half the cost of administering the program in the State. This makes food stamp disbursement attractive to States as opposed to disbursement of other funds, such as AFDC benefits of which States must pay half.

However, States must pay 50 percent of the cost of any compliance efforts that would uncover and prosecute program abuse. In addition, States must also repay the Federal Government for the full cost of over-issued stamps. Thus the economies of this system create a disincentive to discovery and correction of abuse by local and State welfare agencies. Until recently, there has been no consistent, well-staffed Federal effort to implement State compliance programs.

The wide variation in the State efforts to control abuse is indicated by data on claims in the five major regions of the country.

In fiscal year 1974, only 984 fraudulent claims were established in the entire northeast region of this country, where there were 3.3 million participants. By contrast, 8,281 claims were established in the southeast region, where 2.7 million persons participated. In the west only 1,867 claims were established, compared with 2.0 million participants.

The same variations are seen in the number of successful prosecutions for food stamp fraud in state and local courts (Exhibit 15). In fiscal year 1974, only 29 cases were successfully prosecuted in the northeast, but in the southeast 238 cases were successfully prosecuted. In the west, including heavily populated California, only 18 cases were successfully prosecuted. By contrast, in the west-central states in 1974, 222 claims were successfully prosecuted and in 1975, 266 were successfully prosecuted.

A major type of violation is that involving wholesale or retail establishments. These are handled mainly by the Department of Agriculture's Office of Investigations, which in FY 1975 devoted about 60 man-years to a program that operates in every county. The Office of Investigations receives requests for investigation from the Food and Nutrition Service, but it also initiates monitoring and investigations are turned over to the FNS and to the USDA Office of General Counsel. FNS itself deals with the minor cases of wholesaler/retailer fraud, and those not necessarily involving willful frauds, through administrative action. In these cases, firms receive warning letters or are disqualified from the program for a period of from thirty days to three years. Most disqualifications are for six months to one year. More serious cases are considered by USDA's General Counsel, who usually determines if prosecution is appropriate and forwards the case to a local U.S. Attorney for prosecution.

The U.S. Attorney reviews these cases along with many other types of criminal cases and gives them a priority in the overall program of law enforcement in his office. The most serious cases are usually prosecuted, but those involving small amounts of money or those involving relatively minor infractions are not prosecuted and are referred back to the Food and Nutrition Service for administrative action. U.S. Attorneys are reluctant to prosecute because it is difficult to obtain convictions. Many defendents are genuinely poor and unable to pay fines. The courts are often sympathetic to the individual and resist imposing the fines and sentences requested by the law. The result is that a very small number of food stamp fraud cases reach prosecution, and even fewer reach conviction.

To illustrate the problem, actual conviction data (Exhibit 16) are as follows: in fiscal year 1974, 725 cases were referred to the Justice Department. In fiscal year 1975, only 688 cases were referred, even though the average monthly number of users of the program increased by 4.2 million that year! Of the 688 cases referred last year, 147 cases resulted in conviction, and some of these were carried over from earlier years.

USDA has recognized this problem and has recommended that laws be changed to promote higher prosecution rates and conviction. Such changes would include reducing charges from "gross negligence" (the legal term describing a State's improper certifications) to "negligence" and reducing the penalty for food stamp violations from $5,000 to $1,000 to permit prosecutions in lower courts.

Against this background, those who would point to conviction rates of less than one-tenth of one percent as evidence of an abuse-free program, are misled. In a program used by a total of 29.4 million people in fiscal 1975 it simply does not seem credible that only 0.08 percent of them abused the program.

I would conclude that serious disincentives exist first to discovering and second to recouping erroneous and fraudulent certification and use of stamps. At the local level, state agencies have a negative incentive to police their programs because they must pay half the cost of the compliance effort and more important, they must repay the Federal Government for any cases of fraud they establish. Because of these disincentives, I want to re-emphasize that conviction rates are not a reliable indicator of the degree of abuse in this program.

USDA Audit Reports

USDA's audit activity demonstrates the extent of program maladministration at the local level. This audit program is designed to determine that:

(1) program operations are efficient and desired objectives are being achieved,

(2) applicable laws and regulations are being complied with,

(3) resources are managed in an economical and efficient manner, and

(4) financial reports and transactions are proper and correct.

The USDA's Office of Audit makes recommendations for improved procedures when problems are discovered. Failure of a State to implement recommendations to correct the deficiencies is a basis for making a claim against the State for loss of funds.

In 1973 the Office of Audit examined the Food Stamp Program of Los Angeles County for July that year, and the auditors found that 45 percent of the authorization-to-purchase cards were improperly issued. They found a potential program loss of at least $756,000 dollars for the month of July alone -- or a possible $9 million for the County of Los Angeles for the full year.

In addition, a Los Angeles County Grand Jury investigation in 1974 concluded that the program was extremely susceptible to fraud including recipient false information, government employee fraud, counterfeiting, embezzlement, and theft of stamps as well as authorization-to-purchase cards.

An audit of Honolulu for May, 1974, showed that 49 percent of the cases involved some type of error. Program losses for that month were $51,000. The auditor found that ... "necessary claim determinations were not being prepared and collection efforts to recover overissues of bonus coupons were usually not attempted. There was an absence of control over ATPs returned as undeliverable in the mail. Some recipients received duplicate benefits ..."

In Santa Clara County, California, in June and July 1974, USDA auditors found a program loss of $260,700 from coupon

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overissuance, or eight percent of the total bonus amount. The four most common reasons for overissuance were found to be:

(1) recipient understatement of gross income,

(2) recipient overstatement of deductions from gross income (in order to become eligible),

(3) overdue recertifications, because certified recipients returned tardily for recertification, once having been certified,

(4) clerical errors.

In total, the Office of Audit conducted 709 audits of the Food Stamp Program in FY 1975. They found 676 had discrepancies, and only 33 were error free. There were 52 major discrepancies of the types contained in the 14 audit reports furnished to the Treasury Department, attached in Annex B.

Quality Control and Food Stamp Administration

One of the most important indications of program error is USDA's quality control data, even though these data cover only non-public-assistance recipients, or only 51 percent of food stamp recipients.

These data indicate error in three ways. They show:

(1) the amount of incorrect certifications, or the number of recipients who are ineligible.

(2) the amount of error in the issuance of food stamps, or the number of cases in which too many, or too few, food stamps were issued based on the case-worker's calculations.

(3) the amount of error caused by welfare agency administrators, and error caused by recipients.

These three aspects of error revealed by the Quality Control Program are summarized by the table at Exhibit 17.

Of the cases surveyed, 17 percent were ineligible because of error in certification. More than half of these, or 8.8 percent, were clearly ineligible because they had misrepresented their income or some other fact. The remainder of these were ineligible because of computational errors or technical omissions in the certification process, and because they had failed to register for work, as the program requires.

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The fact that the survey showed 8.8 percent of the nation's food stamp recipients were ineligible because of misrepresentations or misstatements could, I suppose, be read as an indication that this is an efficient program. I do not read that statistic that way. It means that nearly 700,000 non-public assistance food stamp recipients in the period surveyed were misrepresenting their personal situations, and were incorrectly eligible.

I particularly do not accept that statistic as an indicator of a well-run program in light of data on the second type of error -- issuance error. The survey found that food stamps were incorrectly (over or under) issued in 54 percent of the cases surveyed. Stamps were issued to the 17.3 percent of the surveyed participants who were ineligible, as indicated above, and another 26 percent were eligible but received more stamps than they were entitled to. Combine 17.3 and 26 percent and we discover that stamps were overissued to a nationwide total of 43.3 percent of the households. In almost 30 percent of the cases surveyed, the errors were caused by misstatements by individuals.

And I must note again that this quality control survey only covered slightly more than half of the participants. Slightly less than half of the participants in the food stamp program are receiving some form of public assistance (Exhibit 18). These people are automatically eligible for food stamps, under the current program. Thus if some of them are ineligible for public assistance, they would also be ineligible for food stamps as well. These quality control data cannot reflect this element of ineligibility in the program and it is difficult to estimate it.

Again the point is that the current program provides extensive opportunity for error. The District of Columbia food stamp application form is a booklet of seven pages, requiring answers to dozens of questions and sub-questions, depending on the applicant. The program manual used by case-workers in one State is over 160 single-spaced pages. When a caseworker must certify or reject an individual for the program within 30 days (and provide a hearing in case of rejection), there is a great deal of pressure to accept information as it is supplied by applicants.

But the application forms and instruction manuals are created only because they are necessary in the administration of a very complex program. These forms permit an applicant to establish his eligibility by establishing his gross income, then to apply specific deductions against it. These are two major areas in which the current program permits administrative error and opportunity for deliberate or inadvertent misstatements by individuals.

MAJOR PROBLEMS OF THE CURRENT PROGRAM

In addition to improved procedures for discovering and countering outright abuse of the Food Stamp Program, there are several areas in which tightening of the law would be beneficial. Reform in these areas would help to reduce the potential for abuse, would insure more equal treatment for people with similar resources, and would lower costs through program simplification. I would like to discuss several of these problems as indicative of areas where reform is most needed.

Determination of Resources

The calculation of a family's resources is one area for potential complexity and possible errors and abuse. Non-welfare food stamp recipients can have liquid resources up to $1,500 per household, except for households with two or more people in which one is 60 years old or older, which may have resources up to $3,000. But not counted as resources are a participant's house, lot, one licensed vihicle, and other vehicles if they are needed for employment. Also, personal belongings and household goods, the cash value of life insurance policies and pension funds, and income producing property are not counted.

The resources test creates inequities. It permits people who have a fair amount of wealth in these types of fixed assets to qualify. For example, it hypothetically would be possible for a recipient to have two expensive cars, a very valuable house, a boat, vacation property, other income producing property, a life insurance policy and a pension fund, and expensive household goods and personal belongings and still qualify for food stamps if his assets were not out of keeping with those of other families in his community -- provided that his current income fell sufficiently to permit him to qualify. This can occur because of the limited nature of the current assets test.

Determination of Gross and Net Income

Establishing gross income creates another set of complexities. Even determining the types of income is a problem. Earnings by a child under 18 who is a student at least half of the time do not count as family income. Neither does earned income which is less than 10 percent of total income up to a maximum of $30 per month. Part

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of the money received from one or two roomers or boarders is not counted as income. Each of these determinations provides opportunities for caseworker and recipient error.

The Food Stamp Program also does not test prior income, only the absence of a current income. This is called the prospective accounting period. It permits a person to have had a high salary for several months or even years before he applies for stamps. But if he has no income on the day he applies, he may well be eligible to receive stamps.

Another area open to error and abuse is the provision that permits deductions from a family's gross income in order to establish net income, which is the basis for establishing eligibility. In applying to the caseworker for certification for stamps, the recipient can deduct certain expenses from his gross income to obtain net income. For example, deductions can include: child support and alimony payments, expenses associated with family disasters (fires, floods, and theft), part of housing costs, education expenses, union dues, medical bills, and payroll deductions. Thus some families with heavy expenditures on these items can benefit from the Food Stamp Program while other families with the same after tax income but without these expenditures cannot. Since many of these expenditures are a matter of personal preference, such as relatively high housing expenditures or school tuition, inequities among families are created, and some middle income families can become eligible for the program.

As a result of these deductions and of the prospective accounting period, some households receive more in benefits because of the <u>monthly</u> income test than their <u>annual</u> income would seem to warrant, and others gain access to the program who would not appear suffuciently needy to qualify at all. Thus, only about 4.5 percent of households receiving food stamps in July, 1974 had a <u>monthly</u> income for July of more than $625 (an annual rate of $7,500). But 10.2 percent of these same households receiving food stamps in July had an annual income over the preceding 12 months which averaged more than $7,500. <u>And 3 percent</u>, or an estimated 500,000 people lived in households which had incomes averaging more than $12,000! By comparison, for the year ending in March, 1975, 15.4 percent of food stamp households exceeded a $7,500 annual income and 5 percent, or an estimated 1.1 million people were in households whose incomes exceeded $12,000 over the year (Exhibit 19).

The $16,000 example so widely quoted and advertised, is difficult to construct, but as this Committee knows, it <u>can</u>

be constructed. The fact is that the program provisions result in use of the program by many who are not ordinarily considered needy.

The Temporarily Unemployed

The eligibility requirements of the current program also permit students, strikers, and others who are voluntarily unemployed to participate in the program.

With regard to students, the problem is that many can qualify for food stamps if they do not receive parental support and if they claim large deductions for housing payments, utilities, and education expenses from their limited or nonexistent income during the school year. This test permits many to qualify. I'd like to give you an example from my mail:

A man from Chicago wrote me that while in his junior year at Illinois State University, he decided to write a paper on the Food Stamp Program for his social work class. He filled out an application for the program as part of his research to see how the program works. He didn't expect to be certified, since his father was in an upper middle-income bracket. Nonetheless, he was certified to receive $38 per month in food stamps, which was soon raised to $42. As a result of his experience, several of his friends applied for food stamps. In his own words, "To say the least, we ate like kings."

Though the number of students using the program appears to be very small, their participation has been widely observed and criticized and has become an often-cited stigma of the Food Stamp Program, thus hurting those who really need it.

The Food Stamp Program also has been used by persons on strike, though as this Committee is aware, it is very difficult to determine the exact extent of such use.

The problem with making food stamps available to strikers, as I see it, is that the Government ends up assisting the strike through its food support program. It inadvertently becomes a party in the labor dispute on one side of the argument. We must ask whether this is what we intended food stamps to be used for. A retroactive accounting period for

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income determination, as proposed by the President, would help to solve this problem.

THE NEED FOR REFORM

In sum, my review of the program has revealed serious problems of uncontrolled growth, abuse and misuse, coupled with a lack of enforcement of program regulations. These problems make reform essential in the interest of the needy recipient and the U.S. taxpayer alike. Our approach to reform must proceed on two fronts:

(1) the immediate reforms we can make now, to make the program less wasteful and more responsive to the purpose for which it was designed -- to provide the truly poor an opportunity to purchase the food they need; and

(2) a longer-term effort to rationalize our entire national welfare structure to meet the basic income-maintenance needs of the poor without unnecessary overlap and cost.

Food Stamp Reform

I support strongly the fundamental objective of the Food Stamp Program. We have an obligation to the poor to provide the ability to have a nutritionally adequate diet. But I believe we can do this and achieve substantial program reforms and cost savings as well. The kinds of cost increases we have experienced in this program are neither inevitable nor necessary if we make the commitment to structure an effective and efficient program. Neither can we accept as inevitable or necessary the large projected increases for our total national transfer payment programs.

I believe that it is immediately necessary:

(1) to reform the program to ensure that it is not used by high income families,

(2) to simplify the eligibility requirements in order to reduce administrative error and opportunities for misrepresentation,

(3) to focus benefits on the truly needy, and

(4) reduce its use as an income supplement by those voluntarily out of work.

I suggest that the food stamp reform effort should have two main purposes. First, national eligibility criteria should be revised to simplify the program and to ensure that its benefits are focused on low-income families. Second, I suggest that systems by which the program is administered, and policed, need thorough review and strengthening.

President Ford has proposed a major reform of the Food Stamp Program. He has asked that the program be simplified, eligibility criteria tightened, and benefits redirected toward lower income participants. He proposes that public assistance recipients should no longer be automatically eligible so that all applicants have to meet income eligibility criteria to obtain food stamps.

The President also proposes that the food stamp purchase requirement should be retained so that recipients have to make a financial commitment to raise their purchases of food in exchange for receiving bonus stamps. The amount that recipients would pay for the stamps would be 30 percent of their income. Dropping the purchase requirement could lead to another large expansion in participation and costs. It might also significantly weaken a major objective of the current program -- to increase the amount of food consumed by the poor -- since only the bonus value of the stamps need be spent for food.

The current system of itemized deductions from gross income for expenses such as medical and educational fees, child care, support payments and excess shelter costs, would be replaced by a standard \$100 deduction for every household or \$125 for families with at least one member over 60 years of age. This reform will make the distribution of benefits among food stamp households more equitable and reduce the opportunities for application error. Most important, all households with incomes, less taxes and the standard deduction, above the poverty line, which was \$421 for a family of four on a monthly basis in 1975, would be eligible.

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The President's proposal would tighten up the work requirement by disqualifying individuals for voluntarily leaving a job, unless the household of which that person is a member was eligible for food stamps during the period of his employment.

The President proposes that income eligibility should be based on an applicant's actual average income during the previous 90 days. This retroactive income test would reduce the number of persons who use the program as a form of short term relief. Households would also be required to report back to issuing offices more frequently for recertification, thus reducing the amount of program error stemming from failure to report reemployment.

Last, administrative procedures to police and enforce the regulations and accountability need to be strengthened by a system that penalizes states for maladministration, poor quality control, loss of funds or failure to implement a satisfactory compliance and enforcement program. The Administration's proposed amendments would give the Department of Agriculture greater authority to ensure that more efficient and effective administration procedures are implemented at the state level. These include: (1) authority for the Secretary of Agriculture to request an injunction against a State that fails to implement corrective action as recommended by the Department of Agriculture; (2) authority for the Department of Agriculture to order a halt to stamp issuance in those areas where corrective procedures are not implemented; (3) authority to increase the Federal share of administrative costs from 50 to 75 percent for those State agency costs that are associated with fraud investigation and prosecution, and (4) authority to require State agencies to issue photo-identification cards to all households certified for the food stamp program.

It is the Administration's estimate that this package of reforms will reduce the cost of the program by $1.2 billion.

Unless we now adopt the necessary reforms to make the Food Stamp Program fairer, more efficient, and of benefit to those who are truly in need, we risk losing public support for the entire program. Our taxpaying citizens are signalling that they will not stand for continued abuse.

Longer Term Reform

For the longer term, I have personally favored a broad income maintenance system as an appropriate way to meet our obligations to the poor and disadvantaged. A simple cash transfer program of some kind may ultimately be the most feasible way of doing this. We have a welfare system that has grown huge and unwieldy, that helps people who don't need it, that is full of overlaps and duplication. It is not doing what we hoped and wanted it to do. It needs rationalization and reform. The President has recognized this and the Domestic Council is studying options for reform.

The Food Stamp Program should be seen in the same light. Is it operating to fulfill the purposes we intended for it? Or is it helping people whom we cannot afford to help? Has it grown so cumbersome and so abuse-prone that it is fast losing its base of public support? If so and if fewer funds are therefore available to help the really needy, the ones who get hurt are the poor themselves.

Equally important is that when public opinion of this program is becoming so negative, its essential political support may be seriously undermined. Again, the poor are hurt most.

So I suggest that we all turn our efforts to improving this program. Its benefits should be refocused. It should be trimmed in order to make it more efficient and in order to restore a strong measure of public confidence in it. The Administration bill announced yesterday is an excellent beginning. I look forward to doing what I can in cooperation with the members of this Committee and other members of the Senate and House to enact it.

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EXHIBITS

TABLES AND CHARTS

GROWTH IN FEDERAL EXPENDITURES ON PAYMENTS FOR INDIVIDUALS*
(BILLIONS OF CURRENT DOLLARS)

FY	Payments for Individuals*	Total Budget Outlays	%
1955	13.3	68.5	19.4
1965	31.8	118.4	26.9
1970	62.2	196.6	31.6
1975	147.6	324.6	45.5
1980 1/	232.5	482.8	48.2 2/

[1] Per OMB Mid-Session Budget Review for Fiscal Year 1976, May 30, 1975, page 20.

[2] Slower growth partly due to the projected reduction in unemployment compensation, because of the lower unemployment rate assumed for 1980.

* Payments for individuals include social security and railroad retirement, Federal employees retirement and insurance, unemployment assistance, Veterans benefits, Medicare and Medicaid, housing payments, and public assistance and related programs.

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EXHIBIT 1

Growth in Federal Expenditures on Payments for Individuals

(Billion Current Dollars Per Fiscal Year)

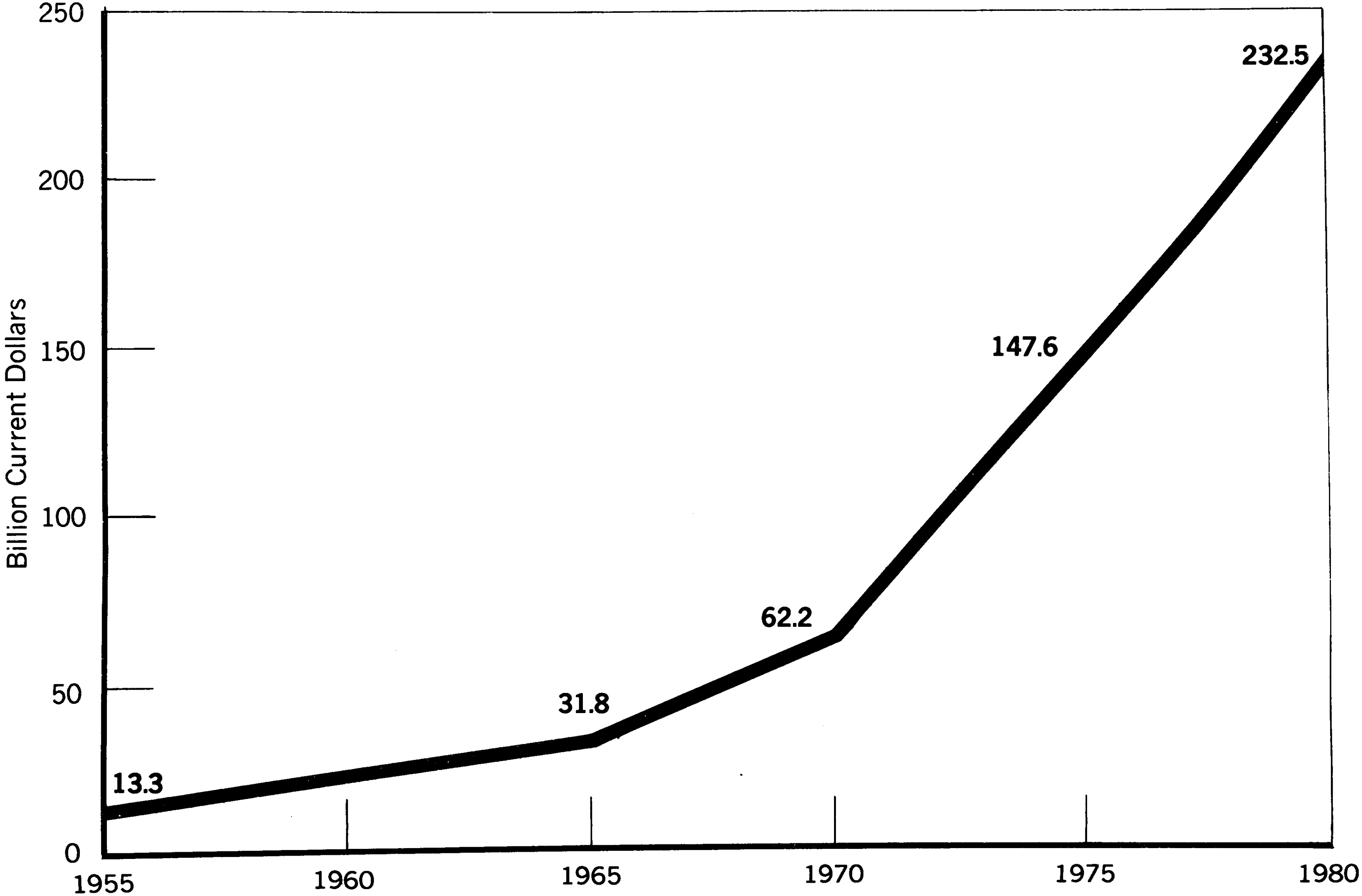
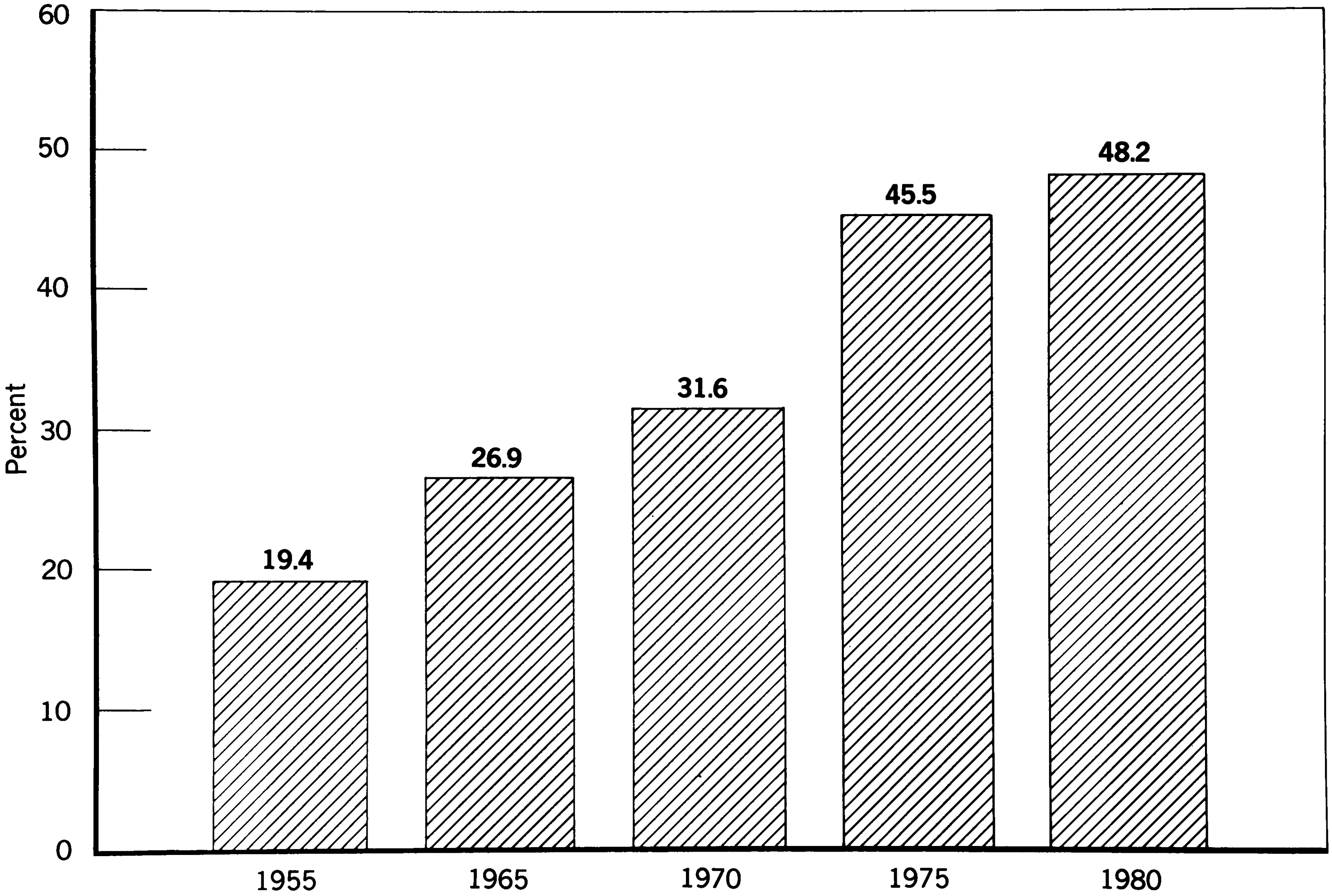


EXHIBIT 2

Payments for Individuals as a Percent of Total Budget Outlays
(Fiscal Year)



SOURCE: Actual outlays for years 1955, 1965, 1970 and 1975. Projected outlays for 1980 from OMB Mid-Session Budget Review for Fiscal Year 1976, May 30, 1975

EXHIBIT 3

EXHIBIT 4 979

GOVERNMENT SPENDING -- IN CONSTANT 1976 DOLLARS

(In Billions)

Fiscal year	FEDERAL SPENDING: Defense 1/	Other direct operations	Payments for individuals	Total	STATE & LOCAL SPENDING 2/: Direct operations	Payments for individuals	Totals
1950	41	75	31	146	60	6	66
1951	68	62	21	151	62	5	67
1952	129	59	21	209	64	4	68
1953	146	62	22	229	64	4	69
1954	136	54	25	214	70	4	74
1955	112	60	28	200	76	5	80
1956	107	60	30	197	79	5	84
1957	107	61	33	201	81	5	86
1958	107	60	40	207	86	6	92
1959	108	72	44	223	90	6	96
1960	105	68	45	218	91	6	97
1961	105	69	51	225	96	6	102
1962	114	79	53	245	100	7	107
1963	115	79	56	250	104	7	110
1964	113	88	58	258	108	7	115
1965	100	92	58	250	113	8	121
1966	112	99	64	275	120	9	130
1967	136	103	73	311	128	11	140
1968	151	109	80	340	134	13	146
1969	145	96	88	329	142	15	157
1970	130	97	94	321	144	16	160
1971	114	94	111	319	149	18	168
1972	108	104	123	335	152	20	172
1973	96	105	133	333	153	23	176
1974	91	96	141	328	164	23	188
2000 proj. 3/	87	185	1,132	1,404	452	166	618
Average annual rates of change:							
1955-74...	-1.1%	2.5%	8.8%	2.6% 4/	4.2%	8.7%	4.
Used in projection to year 2000	0	2.5%	8.8%	6.1% 4/	4.2%	8.7%	5.

SOURCE: OMB

January 31, 1975

Footnotes:

National defense function excluding military retired, pay which is included in payments for individuals.

State and local spending from own sources, Federal grants to State and local governments are included in Federal spending, not State and local spending.

The projections to the year 2000 show what would happen if outlays for nondefense operations and payments for individuals continued to grow at the same average annual rate as from 1955 to 1974. Defense outlays in 1976 dollars which declined from 1955 to 1974 were assumed constant to the year 2000. The computations were made yearly between 1976 and 2000 on this basis, but only the terminal year (2000) is shown on these tables.

In projecting payments for individuals, the 1976 amount was decreased by $10 billion to adjust it to what it would have been with the unemployment rate what it was in 1975 (5%).

These are implicit rates of increase. The outlay projections on which they are based were not computed directly. They are sums of projections of their components.

Personal Tax Receipts and Transfer Payments by
Income Category, 1967 and 1974
(Million $)

Income Category 1/ Thous. $	Taxes Less All Transfer Payments 1967	Taxes Less All Transfer Payments 1974	Taxes Less the Grants Based on Income Tests 1967	Taxes Less the Grants Based on Income Tests 1974	Personal Tax Receipts 1967	Personal Tax Receipts 1974	All Transfer Payments 1967	All Transfer Payments 1974	Transfer Payments for Income Tested Programs 1967	Transfer Payments for Income Tested Programs 1974
Under 1	-61. 2/	-95. 2/	-20. 2/	-53. 2/	9.	10.	70.	105.	29.	43.
1 to 3	-9941.	-9351.	-3696.	-4497.	345.	278.	10286.	9629.	4042.	4774.
3 to 6	-12701.	-28383.	-1352.	-8105.	2825.	2833.	15527.	31216.	4178.	10938.
6 to 9	-897.	-13085.	6553.	2863	8198.	8886.	9095.	21972.	1645.	6023.
9 to 12	8382.	2513.	12961.	12721.	13790.	15113.	5408.	12599.	829.	2392.
12 to 15	11498.	11159.	14448.	17691.	14947.	19157.	3449.	7998.	499.	1466.
15 to 18	10177.	14620.	12165.	19211.	12469.	20081.	2293.	5461.	304.	870.
Over 18	38615.	76099.	41872.	85671.	42325.	86775.	3710. 3/	10678. 3/	454. 4/	1104. 4/
Total	45072.	53477.	82931.	125522.	94909.	153133.	49837.	99656.	11978.	27611.

1/ Income is defined as Census family income plus imputations for in-kind income from food stamp bonus and health insurance under Medicaid, Medicare and VA Programs.

2/ A negative number indicates transfer payments exceeded tax receipts.

3/ In 1967 families with fewer than 4 persons received an estimated 47 percent of this total.
In 1974 families with fewer than 4 persons received an estimated 51 percent of this total.

4/ In 1967 families with fewer than 4 persons received an estimated 28 percent of this total.
in 1974 families with fewer than 4 persons received an estimated 17 percent of this total.

EXHIBIT 5

Number of Families Paying Taxes or Receiving Grants
By Income Category in 1967 and 1974

Income Category 1/ Thou. $	Number of Families in Thousands: Total 1967	Total 1974	Paying Taxes 1967	Paying Taxes 1974	Rec. All Grants 2/ 1967	Rec. All Grants 2/ 1974	Rec. Income Tested Grants 3/ 1967	Rec. Income Tested Grants 3/ 1974	Rec. Food Stamps 1967	Rec. Food Stamps 1974
Under 1	71.	88.	51.	48.	35.	54.	30.	43.	4/	29.
1 to 3	8016.	6219.	3698.	2894.	6044.	4544.	5221.	3909.		1519.
3 to 6	10357.	13075.	7613.	7540.	6669.	9690.	4093.	6712.		2421.
6 to 9	10529.	12018.	9950.	10344.	4205.	6128.	1200.	2333.		979.
9 to 12	10580.	10694.	10506.	10401.	3208.	3907.	495.	955.		328.
12 to 15	8262.	9204.	8247.	9152.	2274.	2627.	275.	538.		114.
15 to 18	5347.	7256.	5344.	7240.	1457.	1848.	167.	287.		54.
over. 18	9210.	14692.	9207.	14687.	2426.	2563.	225.	440.		43.
Total	62372. 5/	73245. 5/	54616.	62306.	26319.	32361.	11707.	15216.		5487.

1/ Income is defined as Census family income plus imputations for in-kind income from food stamp bonus and health insurance under Medicaid, Medicare and VA Programs.

2/ Represents about 85 percent of all transfer programs. Programs included are: Aid to Families with Dependent Children, Old Age Assistance, Aid to the Permanently and Totally Disabled, Food Stamps, Medicaid, Old Age and Survivors Insurance, Disability Insurance, Unemployment Insurance, Workmen's Compensation, Veterans' Medical Care, Veterans' Compensation, Medicare.

3/ Does not include public housing as well as some other minor income tested programs. Includes: Aid to Families with Dependent Children. Old Age Assistance, Aid to the Permanently and Totally Disabled, Food Stamps, Medicaid.

4/ Program too small to report data.

5/ Average size of all families in 1967 was 3.1 persons compared to 2.9 in 1974. Cautionary note; Average size will vary by income category or other grouping of data.

EXHIBIT 6

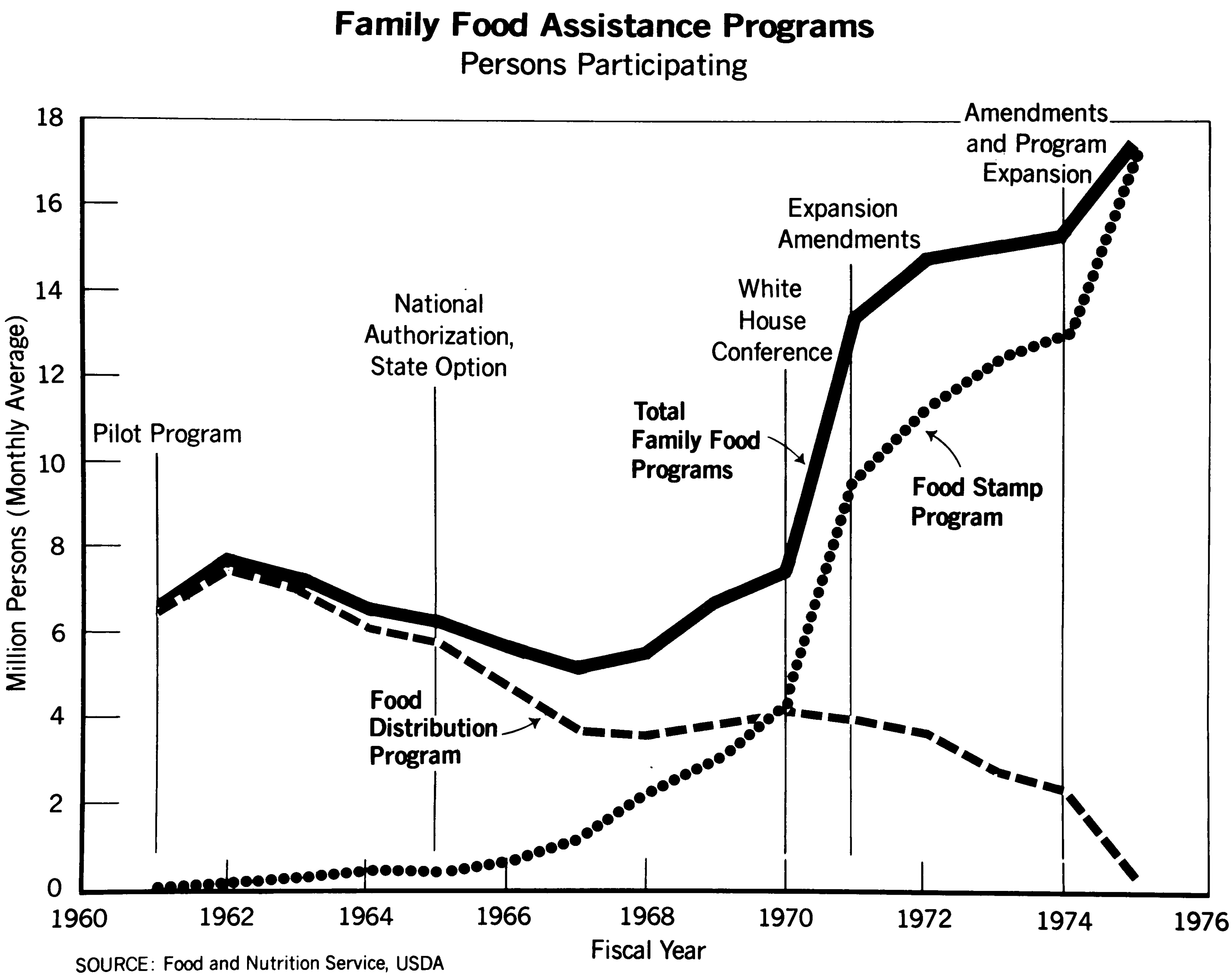
Modified Budget Projections to FY-1980
(in billions of dollars)

Fiscal Year	National defense	Other government operations	Payments for Individuals: Unemployment assistance	Payments for Individuals: Other	Payments for Individuals: Sub-total	Total outlays
1976	94.1	96.6	16.8	151.4	168.2	358.9
1977	105.5	107.6	15.4	181.0	196.4	409.5
1978	120.5	115.9	14.3	206.7	221.0	457.4
1979	131.6	124.1	13.2	234.2	247.4	503.1
1980	141.5	132.3	11.9	265.0	276.9	550.7

Note: National defense and unemployment assistance were taken as projected in the Mid-Session Budget Review, May 30, 1975. Other government operations and other payments for individuals were assumed to grow in real terms at their 1955-1974 trend rates of 2.5% and 8.8% respectively, and were then scaled up to current prices on the basis of the inflation assumptions to 1980 that appear in the Mid-Session Budget Review. Consumer prices were used for payments for individuals and the GNP price deflator for other components.

Source: U.S. Treasury Department

EXHIBIT 7



SOURCE: Food and Nutrition Service, USDA

EXHIBIT 8

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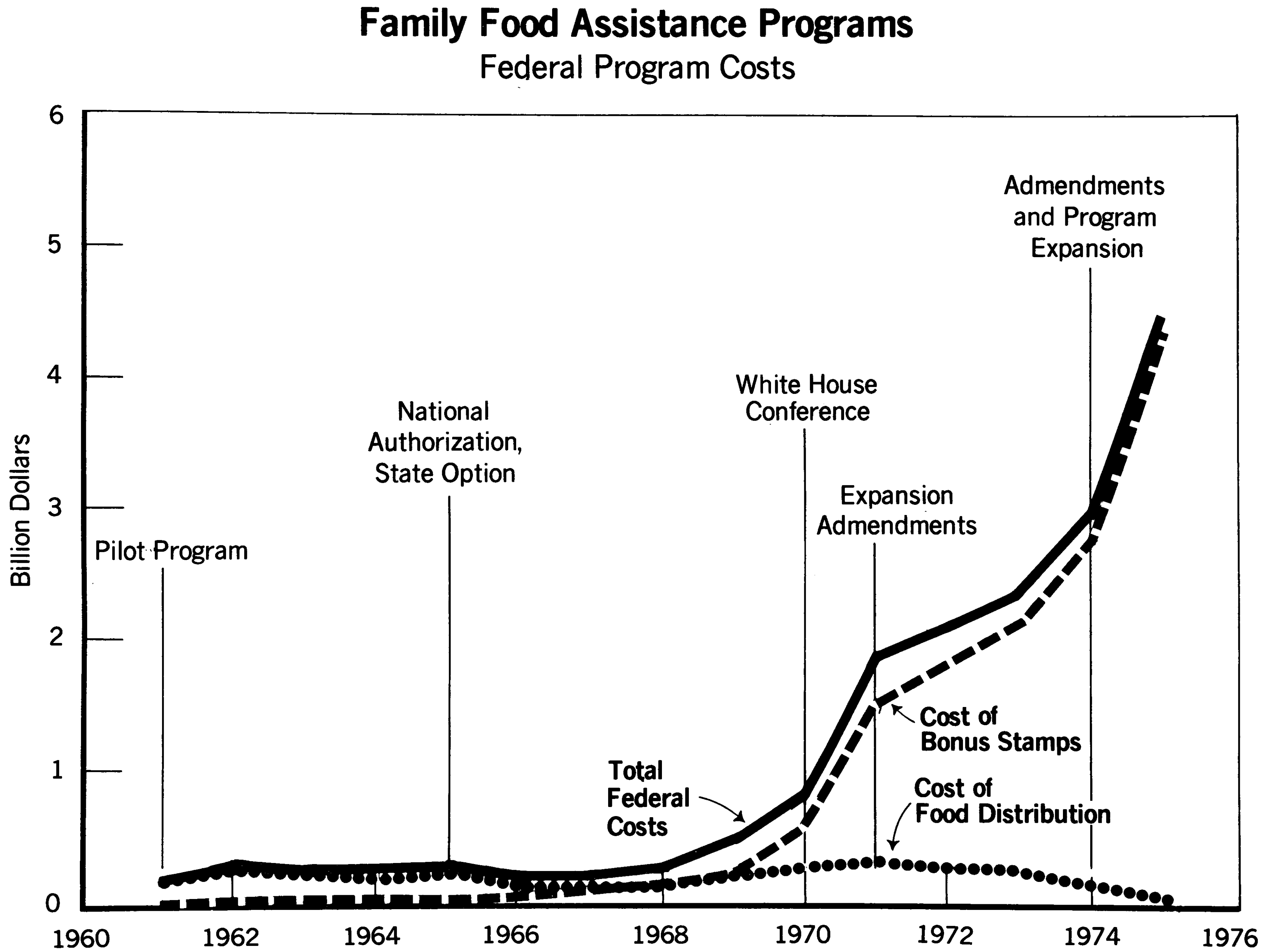

SOURCE: Food and Nutrition Service, USDA

EXHIBIT 9

EXHIBIT 10

FOOD STAMP PROGRAM

Summary of Operations
(Fiscal Years 1961 - 1974)

Year	Persons Participating 1/ (1,000)	% Change Year Ago	Value of Coupons 2/ Total (mil.dol.)	Value of Coupons 2/ Bonus (mil.dol.)	% Change Year Ago
FY 1961	50	--	.8	.4	--
FY 1962	143	+186	35.2	13.2	+3,200
FY 1963	226	+ 58	49.9	18.6	+ 41
FY 1964	367	+ 62	73.5	28.6	+ 54
FY 1965	425	+ 16	85.5	32.5	+ 14
FY 1966	864	+103	174.2	64.8	+ 99
FY 1967	1,447	+ 67	296.1	105.6	+ 63
FY 1968	2,211	+ 53	451.8	173.1	+ 64
FY 1969	2,878	+ 30	603.4	228.8	+ 32
FY 1970	4,340	+ 51	1,090.0	549.7	+ 140
FY 1971	9,368	+116	2,713.3	1,522.7	+ 177
FY 1972	11,109	+ 19	3,308.6	1,797.3	+ 18
FY 1973	12,166	+ 10	3,884.0	2,131.4	+ 19
FY 1974	12,862	+ 6	4,727.5	2,718.3	+ 28
FY 1975	17,127	+ 33	7,294	4,404	+ 62
FY 1976 3/	20,900 5/	+ 22	10,000 4/	6,019	+ 37

1/ Average monthly number of persons
2/ The difference between the total value and the bonus value is the cash paid by recipients.

3/ As submitted in the 1976 USDA budget request.
4/ Estimated with bonus stamps as 60 percent of total food stamp value.
5/ Subsequently revised to 19 million

SOURCE: Food and Nutrition Service, USDA

EXHIBIT 11

FOOD STAMP PROGRAM

Project Areas and Participants Served 1/

Fiscal Year	Project Areas 2/ (Number)	Participants (mo. avg. in mil.)	Participants/ Project Area (thousands)
1969	1,489	2.9	1.9
1970	1,747	4.3	2.4
1971	2,027	9.4	4.6
1972	2,126	11.1	5.2
1973	2,228	12.2	5.4
1974	2,818	12.9	4.5
1975	3,034	17.1	5.6

1/ During 1969, project areas served 59% of the U.S. population. By 1975, the number of project areas had been expanded to serve the entire population.

2/ A project area is a local administrative area, usually a county.

Food Stamp Program

Average Bonus Per Person Per Month

Fiscal Year	Current Dollars	1967 Dollars 1/
1962	7.67	8.48
1963	6.89	7.52
1964	6.51	7.03
1965	6.38	6.78
1966	6.25	6.37
1967	6.08	6.08
1968	6.52	6.43
1969	6.62	6.26
1970	10.55	9.43
1971	13.55	11.82
1972	13.48	11.35
1973	14.60	11.33
1974	17.45	11.35
1975	22.84	12.56

1/ Adjusted using CPI for food at home as a deflator.

Claims Against Food Stamp Recipients Due to Fraud and/or Misrepresentation

January - December 1974

State	Number of Claims Established	Total Amount of Claims
Alabama	1607	257,033.05
Alaska	31	8,682.75
Arizona	207	35,720.50
Arkansas	55	63,950.75
California	1039	231,352.25
Colorado	540	131,763.65
Connecticut	5	466.00
Delaware	4	354.00
Florida	3807	413,349.02
Georgia	410	48,084.00
Hawaii	2	73.00
Idaho	23	3,399.00
Illinois	431	90,761.00
Indiana	747	146,014.65
Iowa	228	31,760.71
Kansas	45	5,384.50
Kentucky	1091	244,046.15
Louisiana	1100	389,166.60
Maine	19	8,660.50
Maryland	275	27,962.80
Michigan	419	55,296.50
Minnesota	138	32,441.00
Mississippi	2161	508,463.25
Missouri	606	189,540.25
Nebraska	296	74,884.50
Nevada	7	1,736.00
New Jersey	42	4,995.00
New Mexico	1518	266,262.75
New York	412	137,194.50
North Carolina	437	85,494.75
North Dakota	91	19,934.10
Ohio	188	35,626.25
Oklahoma	43	12,525.50
Oregon	1031	135,185.44
Pennsylvania	759	65,729.40
South Carolina	565	146,540.10
South Dakota	82	15,651.75
Tennessee	2254	511,676.40
Texas	1369	128,156.00
Utah	206	45,871.50
Virginia	436	81,543.50
Washington	392	47,625.00
West Virginia	84	80,027.00
Wisconsin	27	2,862.00
Wyoming	91	15,018.00
Total	25,346	4,838,244.30

Source: U.S. Department of Agriculture

EXHIBIT 13 (Continued)

Claims Against Food Stamp Recipients Due to Fraud and/or Misrepresentation

January - December, 1973

State	Number of Claims Established	Total Amount of Claims
Alabama	836	164,976.75
Alaska	4	1,102.50
Arizona	12	3,776.50
Arkansas	345	98,816.50
California	397	73,504.25
Colorado	338	84,955.20
Connecticut	15	2,158.00
Florida	384	72,385.75
Georgia	224	43,848.50
Hawaii	9	734.00
Idaho	2	116.50
Illinois	360	59,879.00
Indiana	720	119,780.85
Iowa	107	18,354.15
Kansas	14	796.00
Kentucky	584	124,914.00
Louisiana	279	132,464.40
Maine	9	4,364.50
Maryland	83	12,662.45
Michigan	262	40,780.60
Minnesota	36	8,063.00
Mississippi	1789	442,110.75
Missouri	474	142,913.75
Nebraska	330	79,108.25
New Jersey	91	10,762.50
New Mexico	371	73,560.50
New York	144	36,951.75
North Carolina	681	190,344.25
North Dakota	32	7,258.75
Ohio	379	54,248.75
Oregon	348	39,192.35
Pennsylvania	170	24,475.75
South Carolina	107	22,771.50
South Dakota	37	6,732.50
Tennessee	1799	410,138.25
Texas	104	8,408.75
Utah	13	1,123.00
Virginia	456	96,935.75
Washington	281	55,583.15
West Virginia	19	12,784.50
Wisconsin	123	20,368.25
Wyoming	16	870.75
Total	12,784	2,805,077.15

Source: U.S. Department of Agriculture

EXHIBIT 14

QUALITY CONTROL REPORT OF ERROR RATES BY STATE

State	Percent of cases reviewed			Percent of bonus dollars issued to reviewed cases		
		Eligible			Eligible	
	Ineligible	Overissue	Underissue	Ineligible	Overissue	Underissue
Total	17.3	26.0	10.7	17.5	8.4	2.6
Alabama	15.3	32.9	13.8	16.6	8.7	*
Alaska	17.6	21.6	9.8	13.0	4.5	2.8
Arizona	12.6	23.0	7.0	12.7	6.2	0.8
Arkansas	10.4	29.1	8.1	13.4	8.6	1.4
California	17.1	21.1	11.6	14.1	6.7	3.3
Colorado	22.3	29.0	5.7	21.5	8.3	1.5
Connecticut	24.0	36.1	15.3	25.0	12.5	*
Delaware	22.2	37.8	14.4	28.8	17.7	2.6
Dist. of Columbia	17.9	47.7	8.4	20.5	13.0	2.5
Florida	25.6	27.3	15.7	24.6	7.3	2.7
Georgia	31.3	23.6	13.1	33.5	7.9	3.8
Hawaii	9.5	34.3	9.5	8.3	11.5	6.1
Idaho	2.3	23.3	8.5	1.7	6.7	1.2
Illinois	51.5	12.9	5.0	43.8	4.7	*
Indiana	9.4	19.7	7.6	8.6	6.3	*
Iowa	14.8	26.6	11.5	19.2	7.7	*
Kansas	14.6	22.3	5.1	16.6	9.7	1.1
Kentucky	15.4	25.5	10.3	16.0	8.0	*
Louisiana	11.4	31.5	8.5	14.5	8.8	1.3
Maine	9.1	22.9	10.4	6.3	8.5	0.3
Maryland	24.2	32.9	12.8	25.4	10.9	3.1
Massachusetts	50.0	30.4	13.0	41.0	16.0	4.2
Michigan	20.4	18.1	7.5	22.4	7.2	1.5
Minnesota	28.6	29.0	12.5	29.1	9.1	3.2
Mississippi	9.2	25.9	13.1	10.5	6.9	1.9
Missouri	12.3	26.0	7.7	17.4	11.5	2.5
Montana	35.1	22.8	4.1	41.5	6.0	0.9
Nebraska	10.0	21.1	8.3	16.2	6.4	2.3
Nevada	8.8	25.0	3.8	10.2	6.2	0.9
New Hampshire	17.8	39.7	17.8	21.4	13.1	8.1

EXHIBIT 14 (Continued)

State	Percent of cases reviewed			Percent of bonus dollars issued to reviewed cases		
		Eligible			Eligible	
	Ineligible	Overissue	Underissue	Ineligible	Overissue	Underissue
ew Jersey	14.7	37.1	17.4	17.2	13.6	4.5
ew Mexico	28.7	22.3	3.2	27.8	7.2	0.8
ew York	25.6	23.8	17.8	22.1	7.6	5.3
orth Carolina	14.4	30.7	19.1	15.2	10.3	4.7
orth Dakota	7.6	15.2	3.0	7.6	3.5	0.2
hio	19.6	29.2	10.5	21.8	8.7	*
klahoma	2.5	15.1	6.1	3.1	6.3	2.3
regon	26.1	22.1	6.9	24.0	7.6	1.6
ennsylvania	20.9	31.6	10.7	21.7	11.3	2.9
hode Island	23.6	48.6	12.3	28.7	17.2	5.9
outh Carolina	27.8	41.1	14.6	26.8	12.2	2.8
outh Dakota	7.0	19.0	15.0	7.9	23.5	14.6
ennessee	14.2	28.2	9.9	18.5	8.8	*
exas	7.7	26.5	9.2	8.2	7.4	*
tah	3.1	25.5	8.2	2.1	7.1	-
ermont	19.5	32.3	14.0	17.9	14.1	3.7
irginia	11.1	28.5	12.7	13.7	10.2	*
ashington	5.2	13.8	5.5	6.9	4.9	1.2
est Virginia	6.3	20.1	13.6	4.9	6.2	2.3
isconsin	16.2	18.4	13.2	15.6	7.7	*
yoming	14.8	22.2	9.9	19.0	6.2	1.6

* Not available.

SOURCE: "Quality Control in the Food Stamp Program", Food and Nutrition Service, USDA

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Successful Prosecutions for Food Stamp Fraud in State and Local Courts

REGION	CASES NUMBER	LOSS DOLLARS
	Fiscal Year 1974	
Northeast	29	$ 11,878.25
Southeast	238	117,077.50
Midwest	14	9,680.50
West-Central	222	303,485.91
West	18	18,688.00
TOTAL	521	$460,810.16
	Fiscal Year 1975	
Northeast	12	$ 4,237.00
Southeast	57*	34,925.75*
Midwest	3*	1,753.50
West-Central	266	287,082.51
West	6*	616.00*
TOTAL	344	$328,614.76

(*) Information available for only first two quarters of Fiscal Year 1975

SOURCE: Office of Investigations, USDA

EXHIBIT 16

FOOD STAMP PROGRAM

SUMMARY OF FRAUD BY CATEGORY

CATEGORY	FY 1974 Cases	FY 1974 $Thousands	FY 1975 Cases	FY 1975 $Thousands
Counterfeiting	11	1,134	33	1,835
Retailer/Wholesaler Violations				
Investigations				
Requested	2,664		4,165	
Completed	2,264			
Positive Finds	1,145			
Actions Taken				
Administration	1,523		1,583	
Referred to Justice	725		688	
(successful prosecutions)	(217)		(147)	
Recipient Fraud Total Claims	17,480	3,811	34,463	6,296
(Successful Prosecutions)	(521)	(461)	(355*)	(329*)
Blackmarketing	Little Evidence Available			
Mail Thefts	2	38	None Reported	
Issuance Losses	67	543	74	697
Gross Negligence				
Billed	0	0	5	1,011
Collected	0	0	1	173

* Not all states have yet reported fully

SOURCE: Food and Nutrition Service, USDA

Food Stamp Program
Quality Control Survey, July-December, 1974
Nonpublic Assistance Households

Cases reviewed	29,674
Certification errors	Percent
Ineligible	
Not satisfying financial and program criteria	8.8
Computational, procedural, or work registration omissions	8.5
Total ineligibles receiving stamps	17.3
Issuance errors	
Eligible households	
Overissued	26.0
Underissued	10.7
Total	36.7
Ineligible	17.3
Total issuance errors	54.0
Overissued, eligible plus ineligible	43.3
Causes of error	
Agency errors	26.6
Recipient errors	29.4
Total errors	54.0

Source: USDA

PUBLIC ASSISTANCE PARTICIPANTS IN THE FOOD STAMP PROGRAM

(Million Persons)

	Participants		
	Public Assistance	Nonpublic Assistance	Total
Fiscal Year:			
1969	1.7	1.2	2.9
1970	2.6	1.7	4.3
1971	5.6	3.8	9.4
1972	6.9	4.2	11.1
1973	7.4	4.8	12.2
1974	7.6	5.3	12.9
1975	8.2	8.9	17.1

SOURCE: Food and Nutrition Service.

The Income Status of Food Stamp Recipients -- Differences on a Monthly and an Annual Basis

	Percentage distribution of food stamp households by annual income over the 12 months ending in:		Percentage distribution of food stamp households by monthly income		
Annual Income	July 1974	March 1975	Monthly Income	July 1974	March 1975
less than $6,000	83.5	76.4	less than $500	90.2	Not
$6,000 - 7,499	6.2	8.2	$500 - 599	4.7	available
$7,500 - 9,999	4.9	6.8	$600 - 749	2.9	
10,000 - 11,999	2.2	3.6	$750 - 999	1.2	
12,000 and over	3.1	5.0	$1,000 and over	1.1	
Total	100.0	100.0		100.0	

Source: Based on data from special supplements to the August, 1974 and April, 1975 Current Population Surveys. July data are reported in the memorandum, "The Incomes of Food Stamp Households: Some Survey Evidence," Charles Seagrave, HEW.

EXHIBIT 19

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ANNEX A

Excerpts from Selected Fraud Cases

Excerpts from Selected Fraud Cases

I. Retail Fraud

N-2747-30	Retailer acts as proxy
Te-2742-101	Payment of trade bill with food stamps
C-2745-1085	Sale of non-food items and purchases of food stamps for cash
Ch-2745-1027	Illegal purchase of food stamps and sale of non-food items
SF-2748-170	Sale of non-food items and purchases of food stamps for cash

II. Trafficking in Food Stamps Coupons

C-2748-75	Sale of stolen food stamps
At-2748-93	Bail paid with food coupons
K-2745-163	Sale of illegally obtained food stamps
Te-2748-150	Illegal purchase of food stamps
NY-2791-61	Acceptance of food stamps while disqualified from Food Stamp Program.

III. Trafficking in Authorizations to Purchase Food Coupons

N-2748-35	Grocery store owner acted as proxy for ATPs
C-2745-312	Theft and unauthorized use of ATPs

IV. Fradulent Acquisition of Food Stamps (Individual)

KC-2749-19	Student failed to report income and overstated size of household
T-2745-391	Group of people use false household and address certification
W-2748-5	Individual misrepresented identity and financial resources
K-2749-15	Woman received stamps under two other names. She also failed to report income.
K-2749-13	Woman declared little or no income and no support from husband when, in fact, she lived with husband and was employed.
Te-2749-22	Little Rock, Arkansas case where woman recruited others to be certified for food stamps by supplying false address and household size.
T-2743-390	New Mexico fraud ring of 23 individuals who obtained $43,564 in stamps from 16 countries.

/ood

IV. Continued

SF-2749-2	Woman failed to report bank deposits which would have made her ineligible for food stamps

V. Employee of Food Stamp Program Fraud

C-2742-5	Chicago, Illinois
T-2745-251	San Antonio, Texas
S-2747-2	Sacramento, California
T-2741-26	Bogalasa and Franklin, Louisiana
C-2741-14	Prestonburg, Kentucky
C-2742-6	Gary, Indiana

VI. Unauthorized use of Food Coupons

SF-2748-146	Paymement for meat for cafe with food stamps

VII. Counterfeiting

SF-2742-22	$350,000 counterfeit coupons

VIII. Postal Theft

At-2742-10	Postal employee theft

I Retail Fraud

Retailer Acting as Proxy in Food Stamp Program

Albany, New York

Case No. N-2747-30

______ and ______ and ______ acted as proxies in cashing of ATPs for eight (8) separate food stamp recipients. They cashed seventeen (17) ATPs having a total coupons value of $477.00 of which $167.50 were free or bonus coupons. The cards were cashed at the Park Office of the National Commercial Bank and Trust (NCB & T)

Bank personnel advised that ______ presented the proper materials when cashing the ATPs and that they were unaware that ______ could not act as proxies.

______, a food stamp recipient, stated that on at least two occasions he gave ______ his ATP with his Identification Card and the cash required to purchase his food stamps. ______ returned the stamps to him and he was able to pay the market whatever he owed them.

______, a food stamp recipient, substantially stated that she gave ______ her ATPs and received in exchange credit towards food purchases in the market.

I Retail Fraud

Payment of Back Bills with Food Coupons

Baskin, Louisiana
Case No. Te-2742-101
Supplemental II

This Supplemental investigation was conducted on the basis of information furnished by Investigative Aide ______ Winnsboro, Louisiana, who reported that he had a charge account totaling about $250.00 at subject store which he had been making monthly payments on with food coupons. ______ reported he had purchased both eligible and ineligible items, including cigarettes and gasoline, on the account.

Exhibit I is a signed statement by ______ which he admits to the purchase of eligible and ineligible items, charging them, and later paying his back bill with ood coupons

On April 25, 1975 ______ was furnished with $148.00 in marked coupons for use in payment of his back bill at the subject store. Under the supervision of the Reporting Agent, ______ visited the subject store where he stated he paid ______ the $148.000 in food coupons on his back bill.

/003

I Retail Fraud

Sale of Nonfood Items for Food Coupons and Purchase of Food Coupons for Cash

Case No. C-2745-1085

Because of high food stamp redemptions, ______ was suspected of violating the Food Stamp Program

During the period April 10, 1974, a total of 12 visits to this store resulted in the purchase of 172 ineligible items. During three of these visits, ______ purchased food stamps for cash as follows: On May 15, 1974, $165.00 in food stamps for $123.75 cash; on May 23, 1974, $210.00 in food stamps for $157.50 cash; and on June 12, 1974, $1,200.00 in food stamps for $800.00 in cash.

On June 12, 1974, as previously arranged, ______ was arrested by United States Deputy Marshal Robert Lowry after ______ purchased the $1,200.00 in food stamps for $800.00 cash. On June 13,1974, ______ was indicted on four counts of violating the Federal Food Stamp Act, arraigned, and released on a personal recognizance bond pending trial.

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I. Retail Fraud

______, East Chicago, Indiana
______, ______, Partners in Trafficking
In Food Coupons and Sale of Non-food Items
For Food Coupons
Case No. Ch-2745-1027

Three investigative aides made five visits to this store during the period November 30, 1973 through December 14, 1973. On five visits, a total of 71 ineligible items were sold for food coupons. On the first, fourth , and fifth visits, ______, the clerk, made offers, accepted by the respective aides, to give cash for the balance of the coupons possessed by the aide after paying for the purcahses. In the three transactions he paid to the aide $22 cash for coupons having a face value of $30, $20 cash for coupons having a face value of $28, and $10 cash for coupons having a face value of $15.50.

One investigative aide, accompanied by Special Agent, Miss ______, as a witness, made visits to the store on January 30, 1974, and on February 11, 1974. On the first visit, __________ offered to buy food stamps and paid $152.50 cash for food coupons having a face value of $210, and on the second visit he offered to buy food stamps and paid $160 cash for food coupons having a face value of $240. One aide made two visits to the store on February 14, 1974 On the first visit, the aide refused an overture by ______ to buy coupons because additional sales to ______ would serve no useful purpose, and the visit had been made in an attempt to contact ______. When the aide returned to the store later that day, ______ offered to buy food coupons and paid $150 cash for food coupons having a face value of $222. The aide also made a visit to the store on February 15, 1974, and ______ offered to buy food coupons and paid $140 cash for food coupons having a face value of $200. He also accepted a $5 coupons for one carton of cigarettes

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I. Retail Fraud

______, Spokane,Washington
Case No. SF-2748-170

The subject market origianlly showed up as statistically excessive on the ADP (Automatic Data Processing) printout for July 1974 and was visited in September 1974 at which time ______ provided an apparently reasonable answer. Also, an official warning was sent to ______ in 1972 regarding giving back cash to customers.

An actual investigation was initiated after receiving subsequent information about the subject store. In this investigation, Mrs. ______ owner's wife, bought $30 worth of food coupons for $18 in cash on three occasions. She also accepted food coupons in payment for beer and cigarettes valued at $7.32 plus 33 cents tax, and gave $1.15 as change during Transaction No. 1. In another transaction, ______ owner of subject firm, bought $115 worth of food coupons for $75 in cash, accepted food coupons for wine and cigarettes valued at $4.72, and gave 28 cents as change. ______ and his wife did not refuse to buy food coupons or to accept food coupons for ineligibles during any of ______ visits.

II. Trafficking in USDA Food Stamp Coupons

Case No: C-2748-75

Title: Dayton Ohio
Trafficking in Stolen USDA
Food Stamp Coupons

1. This final investigation report was originally predicated at the request of the Director, Food Stamp Program, Midwest Region, Food and Nutrition Service (FNS), U. S. Department of Agriculture (USDA), Chicago, Illinois, to locate and identify unknown persons trafficking in stolen Federal food stamp coupons in Dayton, Ohio.

2. During the initial phase of this investigation, $2,500.00 of food coupons were acquired by cash purchase between July 10, 1973, and July 17, 1973, from , Avenue, Dayton. On July 20, 1973, was arrested during a coupon transaction and $9,000.00 of food coupons were seized with a search warrant.

3. The $11,500.00 of food coupons acquired were traceable to the $91,970.00 food coupon burglary which occurred on December 29, 1972, at Youngstown, Ohio, an authorized Food Stamp Coupon Issuing Office.

In a signed statement obtained on August 24, 1973 (Interim Report, Pages 9-11, also Exhibit 5), named an employee of the Street, Dayton, as his supplier but furnished no corroboration.

An interim investigation report, same title and case number, was issued about September 10, 1973, and the investigation was continued to develop information pertinent to and other trafficing in food coupons in the Dayton area.

II. Trafficking in Food Stamp Program

______, Assistant Manager ,
Big Star Downtown, Osceola, Arkansas --
Trafficking in Food Coupons
Case No. Te-2748-150

On August 16, 1974, George C. Ford, Jr., Sheriff, Mississippi County, in a conference with Patrick C. Murphy, Attorney In Charge, and Michael L. Cruse, Staff Attorney, OGC, Little Rock, Arkansas, and Reporting Agent, expressed concern about Food Stamp Program violations in his county. Ford said such violations were indicated in intelligence reports received in connection with his investigation of gambling, cattle rustling, and drug trafficking, Ford believed that ______, Assistant Manager of ______ grocery store in Osceola, and another man were selling stolen beef to ______, Joiner, Arkansas, Ford said that ______ had offered to buy food coupons from ______ present address unknown, an undercover agent working for Ford in the drug and gambling investigation. Ford believed that ______ had food coupons to sell ______ might be able to join "the ring" and deal directly with ______ whom he believed was trafficking in food coupons.

On August 17, 1974, Ford have the $510.00 in food coupons to ______ who signed a receipt for them. On Sunday, August 18, 1974, ______ met ______ at the ______ where ______ was working as an Assistant Manager at the time. ______ bought $200.00 in food coupons and paid ______ $100.00 in cash. Later that day, ______ bought the other $310.00 in food coupons from ______ for $155.00 in cash. ______ then gave the money to ______, Deputy Sheriff.

______ offered to buy more food coupons, but before the deal was made, ______ was arrested by the Osceola Police Department, and charged with obtaining money under false pretenses and fired from his job at the store.

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II. Trafficking in Food Stamp Program

Waterloo, Iowa
Case No. K-2745-163

On February 10, 1971, ______, Waterloo, informed the Waterloo, Iowa, Police Deaprtment that he had purchased a $20 book of $2 denomination food stamp coupons (coupons) from ______ and that he had paid ______ $15 for the coupons by check.

______ subsequently advised that as an interested citizen he purchased the coupons and informed the police because he suspected that they may have been stolen during a recent robbery of the Waterloo Food Stamp Office.

A witness said he was in a Waterloo tavern when the transaction took place and saw ______ sell the coupons to ______.

______ said he had gone to the tavern on February 10, 1971, with the intention of selling the coupons. He stated that he sold a $20 book of $2 coupons for $15 to a man, at the tavern, whose name he did not know, and that the man paid him with a check.

______ stated that he had purchased coupons from the Black Hawk County Food Stamp Office, Waterloo, in January 1971 for a family of four and paid $2 cash for $106 worth of coupons. He said in February 1971 he purchased coupons for a family of eight and paid $3 cash for $180 worth of coupons. ______ said he made a false application for coupons by claiming people were living with him who were not, so he could get more coupons for a small amount of money.

A Waterloo Police report showed that the United States Attorney for the Northern District of Iowa had been informed of ______ selling coupons, and that he was interested in Federal prosecution of ______.

II. Trafficking in USDA Food Stamp Coupons

Case No: At-2748-93

Title: South Carolina- Trafficking in Food Coupons

1. This investigation was conducted to determine facts and circumstances surrounding a complaint by Mrs. , Fort Myers, Florida, a food stamp recipient that a bondsman accepted $40.00 worth of her food stamps as bail in connection with a traffic citation for speeding.

2. Examination of arrest records at the Dillion County jail, made available by Deputy Sheriff, indicated that Mrs. was confined at 5:30 pm on July 19, 1974, and released at 6:15 pm with a payment of $20.00 bail. The records did not indicate the name of the bondsman assisting Mrs. .

Mrs. provided a signed statement which is quoted as follows:

"January 9, 1975

W. Palm Beach, Florida

"I, Mrs. , make the following statement freely and voluntarily to Bobby O. Yeargin, who has identified himself to me as a Special Agent, Office of Investigation, United States Department of Agriculture, knowing that it may be used in evidence.

"I now reside here at W. Palm Beach, having recently moved from , Fort Meyers, Florida. I am not employed at the present time, and am participating in the Food Stamp Program here in W. Palm Beach.

3. "Regarding the arrest in South Carolina near Dillion on the afternoon of July 19, 1974, it was for speeding 70 in a 55 mile per hour zone.

/010

II. Trafficking in USDA Food Stamp Coupons - (Continued)

Case No. At-2748-93

" (asked me if I was aware of the speed limit being 55 miles per hour. I answered, Yes. The State Trooper stated that he was going to 'lock me up' for speeding and asked if I had anything of value value and I replied 'No', that I did not have anything of value in my pocketbook except Government Food Stamps. I had at that particular time about $60.00 worth of stamps left from my last purchase.

"Upon arrival at the Dillion County Jail, I went in the building with Trooper alone, my children remained in the stationwagon. The Jailer, whose name I do not recall at this time, asked me if I knew anyone to call for my bond. I replied, No. The jailer stated that he could call someone to go my bond if it was okay with me. I told him I did not want him to call anyone for me. A Negro inmate, who was serving time at the jail, took the key to the cell from the Jailer and walked back and locked me up.

"A short while later, a tall Negro Inmate came back to my cell and told me that he knew a man who would take Food Stamps and get me out of jail. I needed to get out of Jail, as my children had not had supper as yet and I agreed to trade the stamps for my bail money.

"Sometime later, a short Caucasian male came to my cell and stated that he was a bondsman. This man asked me where were my Food Stamps, I replied, that they were out in the stationwagon in my purse. I told this man to go to the car (stationwagon) and get my purse, he replied that he would go to the car and have my Daughter bring the purse in. He left and a minute or two later, and this man returned to the cell, with my purse. handed me the purse through the bars and I took out some food stamps.

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II. Trafficking in USDA Food Stamp Coupons - (Continued)

Case No. At-2748-93

5. I specifically recall that the bondsman stated at that time, 'your fine or bond is $20,000 but when I bail out a person and they don't have the money, I have to charge them some extra, so I will have to charge you Forty Dollars worth of Food Stamps' . I then counted out forty dollars worth of food stamps, consisting of one $30.00 book, and I tore out two five dollar coupons from another $30.00 book and handed them to this man. This man put the food stamps in his rear pocket and went to the desk. A moment later a man came and unlocked the cell.

"The next morning I went to Olanta, South Carolina, and discussed the matter with my First Cousin a Police Officer on the Olanta Police Department. About this time the Mayor Olanta, came in the office and I discussed the matter with the Mayor. The Mayor advised me to leave 'well enough alone' that if I returned to the Dillion County Jail it may be that they would charge me more money. I then decided to drop the matter until such time as I returned to Fort Meyers.

"Neither my Daughter nor I had any personal jewelry with us or on our person, such as a watch, necklace, with the exception of a gold ring, which had on her left hand, which she refused to pawn for the bail. I do not own a gold watch and have never owned a gold watch to my knowledge. Any information to the effect that I had a gold watch in my possession is completely untrue.

"Neither me nor my children returned to Dillion after were directed in Interstate Highway 95, by this so called Bondsman. I do not know if he owned a store or not, as I did not actually see it.

"My Sister-in-Law Turneville, South Carolina, and my Cousin Olanta, can both be contacted and will confirm the information related by me in this statement as to my conversation about paying my fine with food coupons.

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II. Trafficking in USDA Food Stamp Coupons - (Continued)

Case No. At-2748-93

"Upon my arrival in Fort Myers, Florida, some days later, I made a formal complaint to personnel of the Food and Nutrition Service, who advised that they would forward the information to the proper authorities.

"I might mention also that the State Trooper advised me, prior to leaving Interstate 95, that my fine would be $20.00 and I told him that all I had was food stamps and $2.45 in cash.

II. Trafficking in Food Stamp Program

Utica, N.Y.
Case No. NY-2791-61

This is a continuing investigation of an initial investigation conducted to determine if ______ d/b/a ______ also known as ______, 424 South Street, Utica, New York was accepting food stamps while disqualified from the Food Stamp Program (FSP). The purpose of this part of the investigation was to interview complaintants regarding violations by the subject.

Reporting Agent made six visits to ______ during the period March 14 through April 3, 1974. On all six visits, a total of forty-five items were purchased from ______ and ______ for food stamps. A total of twenty-two ineligible items were sold for food stamps, including beer and cigarettes on several occasions.

On April 4, 1974, two of the food stamps used to purchase merchandise by Agent at ______ were recovered from the ______. The coupons were serial numbers CO2561862A and CO2561863A. Copies of the coupons are attached at Exhibit 8. The stamps had been redeemed under the retailer redemption authorization issued to ______. The coupons were stamped on the back with the name of that store and were redeemed with a retailer redemption certificate signed by ______ owner. ______ is the mother of ______ and wife of ______.

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III. Trafficking in Authorizations to Purchase Food Coupons

Case No.: N-2748-35

Title: ________________ Syracuse, New York -
Trafficking in Authorizations to Purchase Food Coupons

Brief: From March 1971 to May 1972, a grocery store owner acted as proxy for approximately seventy-five food stamp recipients in approximately 255 transactions. During these transactions he purchased $14,563.00 worth of food coupons for a cash requirement of $10,336.00 involving bonus coupons valued at $4,227.00.

Two food stamp recipients stated that they sold their Authorization to Purchase Food Coupons (ATPs) to ________________. One of these recipients, ______________, sold her ATPs worth $162.00 in coupons per month to ______________ for four months from February 1972 through May 1972.

One recipient, ___ ________ _____, stated that he gave his wife's ATPs to ______________ five times and received a few dollars for each ATP. His wife would also get about $15.00 worth of food and groceries for each ATP.

Three recipients stated that _______________ extended them credit for groceries until they later purchased their food coupons. After the recipients received their food coupons, they settled their charge accounts with ____________________.

________________ in a signed statement, stated that he acted as proxy and purchased food stamps for approximately seventy-five (75) individuals in one-hundred transactions from March 1971 to July 1972. During this period he also was given other ATPs by ________ with which to purchase food stamps. He was under the impression ______________ was buying food coupons for his customers.

Two Investigative Aides, in two shopping visits to subject store, purchased nine ineligible items for food coupons. Total items purchased was 21 of which only 12 were eligible items.

An Authorization to Purchase (ATP) is the means through which an approved household purchases food coupons at a contracting (selling) bank. These food coupons are the proper media for use by the household in purchasing eligible foods. Retailers are entitled to redeem only those coupons for which they have given eligible food items. A retailer who takes an ATP (which is NOT TRANSFERABLE) for which he purportedly gives a portion of the value of the bonus (the Government's contribution to an approved household to raise its nutritional level) has worked a defeat of the basic intent and purpose of the Food Stamp Program. When the retailer, substituting himself in the place of the approved recipient through a proxy device, converts the ATP into the total allotted coupons and redeems (deposits) all of them he has redeemed coupons for which he has not given eligible food items in exchange. In effect, the retailer has used for his own purposes food coupons intended for the exclusive use of approved households in increasing their food purchasing power.

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III. Trafficking in Authorizations to Purchase Food Coupons

Case No.: C-2745-312

Title: Chicago, Illinois -
Fraud and Other Irregularities in the Emergency Food Stamp Issuance Program During May and June 1970

Brief: The initiation of new procedures for the emergency issuance of food stamps in Illinois requiring the preparation of Emergency Authorization Card for the Purchase of Food Stamps (Emergency ATP cards) at the county level for the first time coincided with thousands of Teamster Union members on strike becoming eligible for emergency food stamp issuance in Cook County. The Department of Public Aid was unprepared and understaffed to manage the program under these circumstances.

In an attempt to cope with the demands placed on it, the Department established temporary certification offices in the Union halls and other community centers throughout the county and was forced to staff these offices largely with inexperienced Department employees drafted from other departments, temporary clerical help hired by the Unions, and volunteers recruited from the ranks of the applicants.

Major weaknesses in the distribution, safeguarding, and accounting procedures for blank Emergency ATP cards permitted an unknown number (at least 760) of blank Emergency ATP cards to be stolen or fraudulently obtained by many individuals. These individuals were able to prepare the cards in acceptable form for negotiation at currency exchanges for food stamps or to sell the cards to others who negotiated the cards at currency exchanges for food stamps.

Numerous other individuals, upon learning about the simplified procedures for making applications for emergency food stamp issuance and the lax identification requirements at temporary certification offices, made one or more applications containing false statements regarding number of people eating together, assets, or income. Many applicants also used false names, addresses, and employers.

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A total of 730 Emergency ATP cards were stolen or fraudulently obtained during May and June 1970 and negotiated, permitting a total of $143,889.00 in USDA food stamps to be issued against these cards for total cash payments of $2,318.50.

Another 30 Emergency ATP cards stolen or fraudulently obtained were recovered by OIG and other agencies prior to their negotiation for food stamps. These 30 cards, had they been negotiated, would have permitted a total of an additional $5,876.00 in USDA food stamps to be issued for a total cash outlay of $89.50.

Another 616 Emergency ATP cards negotiated during May and June 1970 have been categorized as questionable and will be referred to the Illinois Department of Public Aid to determine the validity of applications which authorized the issuance of these cards.

Nine related reports and one supplemental report have been submitted which concern specific individuals and acts to theft, fraud, and trafficking in food stamps. Also, an OIG audit was conducted as a result of information developed during the investigations which demonstrated the need for immediate corrective action on the part of management. This report is not concerned with individuals or specific acts, but is designed to show the total financial loss suffered; and to show the causes of why and how the fraud was perpetrated and the corrective measures taken.

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IV Fraudulent Acquisition of Food Stamps (Individual)

Iowa City, Iowa -- Food Stamp Program Participation Irregularities (Supplemental No. 2)

Case No: KC 2749-19

Investigation disclosed that ______ had income that was not reported or counted in his certifications for food coupons, and that he overstated his household size. By so doing, received $788 in bonus coupons to which he was not entitled.

The ______ household income was substantially in the form of loans, grants, and work-study payments from the University of Iowa

The original investigation disclosed that ______ failed to report to the County Office all of his income, and on some of his applications for food coupons overstated the number of persons in his household, which resulted in his receiving bonus coupons to which he was not entitled.

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IV Fraudulent Acquisition of Food Stamps (Individual)

Case No. T 2745-391

______ and his group, Mrs. ______, and ______, his wife and brother, ______, ______ all of Albuquerque, operated as food stamp recipients throughout the State of New Mexico. They applied, were certified and received, during the period October 1970 through March 1971, food stamps valued at $12,047.00 for $235.25 in cash at 14 different Issuing Offices. They accomplished this through false and unverified household and address certifications in their Applications for food stamps as Non-Financial Assistance Householders. The value of the food stamps acquired by ______ equaled $1,710.00; by Mrs. ______ $1,584.00; by ______ $168.00; and by ______ $4,212.00. Except for a few traced to an authorized retailer, the ultimate disposition of these stamps could not be established.

An informant supplied information that :

"The group of persons who are obtaining food stamps at some Issuing Offices in the State are being led by ______. His wife, Mrs. ______ also gets stamps at these places. They drive a red Chevrolet El Camino pickup truck. They have taken him on a few of the trips, but he does not recall how many stamps he got or where he obtained them. He cannot furnish information as to where the ring members will be going, only where they have been, after they get back into town. He knows thet they have been to Santa Fe and Espanola, as well as Taos and Las Vegas, New Mexico. Which ring members obtained stamps in which towns he cannot say. Another ring member, ______ who has done over 10 years in prison for killing a man and is also a narcotics user, is a member of the ring who is not trusted too well.

______ approached him to join a ring of mem who would travel throughout the State of New Mexico obtaining food coupons by fraud. As ______

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explained the operation, they would establish false food stamp recipient files in the various towns at the Food Stamp Issuing Offices generally located in the County Welfare Offices. They would use their proper names but would furnish false addresses, claiming that they lived in an area near the town involved. They would also furnish false family members to increase the size of the food stamp issuance. To make it worthwhile, they would generally claim a family size of seven or eight which entitled a person to $162.00 or $180.00 worth of coupons for a cash outlay of $3.00

______ and ______ told him that they sold the stamps for 50 cents on the dollar but did not tell him who purchased the stamps. He was supposed to live with the members of the ring, learn their operation and obtain food stamps along with the members of the ring, if necessary.

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IV Fraudulent Acquisition of Food Stamps (individuals)

Mear, Virginia; Pocomoke, Maryland; Hallwood, Virginia

Case No. W-2748-5

Investigation disclosed that from May 1970 through May 1971, Mrs. ______ using various identities, purchased a total of $5,286 in food stamps concurrently from four Maryland counties by making false certification as to her residence, which was Virginia, and/or financial resources. Mrs. ______ admitted she obtained food stamps in Somerset, Worcester and Wimico Counties but denied acquiring stamps in Talbot County. Mrs. ______ alleged that when she obtained stamps in the above three counties that she was a resident of those counties; however, investigation disclosed that during the period in question she resided in Mear, Virginia. With respect to Mrs. ______ denial of having obtained food stamps in Talbot County, a comparison of her handwriting along with pertinent documents involved was inconclusive; however, she was positively identified by one of the workers at that office as having purchased stamps there. Mrs. ______ offered to make restitution of the food stamps she fraudulently acquired.

Investigation also disclosed that from June through May 1971, ______, son of Mrs. ______ and/or his wife purchased a total of $1,860 in food stamps from three Maryland counties (Somerset, Worcester, and Wicomico). It was determined that ______ in certifying for food stamps during part of the above period gave false information as to his residence and/or financial resources (wife's income). ______ admitted to unlawful acquisition of food stamps in Somerset and Worcester Counties, but denied obtaining food stamps from Wicomico County. However, his participation in Wicomico transactions was corroborated through handwriting comparisons.

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Further, in April 1970, Mrs. ______, wife of Mrs. ________ son ______ while a resident of Virginia, purchased $106 in food stamps at Worcester County by making a false certification as to her residence and family composition. Mrs. ______ admitted having committed the offense.

1022

Fraudulent Acquisition of Food Stamps (Individual)

Mrs. ,St. Louis, Missouri -
Food Coupon Recipient Fraud

Case No. K-2749-15

Investigation was conducted to determine if Mrs. a food coupon recipient, received an overissuance of coupons totaling $2,476 by using another name, " "

An Examiner of Questioned Documents stated, after he made a comparative study of 59 signatures' and 35 signatures " " that all but two were written by the same person.

Investigation revealed that since January 1968, Mrs. as been steadily employed or receiving unemployment benefits or other income and has received Aid to Dependent Children grants, child support from her husband, and Social Security income. Investigation also revealed that she worked under her maiden name, " and accepted coupons under the name of

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IV Fraudulent Acquisition of Food Stamps (Individual)

Case No. K-2749-13

From October 1969 through January 1973, the applied for and received $1,985 worth of bonus food coupons from the Linn County Department of Social Services (LCDSS), Cedar Rapids, Iowa. On Mrs. applications for coupons, she declared little or no household income. Most of that time, however, both Mr. and/or Mrs. were employed full time. In late 1971, Mrs. quit her employment at the Cedar Rapids, and told the LCDSS Caseworker she and were separated and she did not know his whereabouts. Mrs. then began receiving a $279 per month Aid to Dependent Children grant. Personnel records at employer. , Cedar Rapids, showed that listed the same addresses as Mrs. reported to LCDSS Caseworkers and provided health benefits for the family. In September 1971, assumed a loan on a house in Cedar Rapids, which Mrs. then reported to LCDSS as her address.

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IV Fraudulent Acquisition of Food Stamps- Conspiracy

Little Rock, Arkansas
Case No. Te-2749-22

recruited individuals to fraudulently obtain food stamps starting in November 1972. This was done by means of false applications, names, addresses, Social Security Numbers and fictitious dependents. The individuals would give the coupons which she would cash in and in turn pay the individuals a partial cash payment. Known dollar value loss is $5,199.00. Mrs. was arrested and charged by the Prosecuting Attorney, Pulaski County, Little Rock, with obtaining property under false pretense. She pled not guilty and trial is set for October 6, 1974.

One of the individuals recruited said furnished him the Food Coupons Application and a rent receipt stating that he paid $85.00 per month rent and resided at 1515 Cedar Street, North Little Rock, a fictitious address.

He is unable to read or write so filled out the application and completed the rent receipt. listed a household size of 11, using his brothers and sisters as dependents, as he has only one child.

took him and to the North Little Rock Issuing Office on February 27, 1974. outside while he went in and drew $302.00 in food coupons for a zero purchase price.

After he received his coupons he returned to house with her where he gave her the coupons. gave the coupons to her husband to go cash. A short time later her husband returned and gave him $85.00 cash for his part of the $302.00 coupons.

The same methods were repeated using other individuals.

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IV Fraudulent Acquisition of Food Stamps (Individual)

Case No. T-2743-390

and his known group, ,Tijeras Canyon, New Mexico, and 18 others suspected of being members of the same ring, operated as food stamp recipients throughout the State of New Mexico. They applied, were certified and received, during the period May 12, 1969, through March 5, 1971, food stamps valued at $43,564.00 for $1,288.50 in cash at Issuing Offices in 16 different countries. The stamps obtained by were valued at $16,928.00; by , $1,161.00 by $1,008.00; by $8,975.00; by through the apparent use of an assumed name, $2,312.00; and by the remaining 18 recipients; $13,180.00. These recipients accomplished this through false and unverified household and address certifications in their Applications for Food Stamps as Non-Financial Assistance Householders. Except for some traced to authorized retailers, the ultimate disposition of these stamps could not be established.

admitted that recruited him and others; used them to apply for the food stamps; paid each when in operation about $25.00 daily for obtaining the stamps; and took possession and apparently disposed of the stamps for cash. and declined to furnish any information concerning their food stamp activities.

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IV Fraudulent Acquisition of Food Stamps (Individual)

False Certicication to Obtain Food Stamps
Case No. SF-2749-2

applied for and procured food stamps through the Laramie County Department of Public Assistance and Social Services, Cheyenne, Wyoming, during the period January 1970 through October 1971, on eight different occasions. She obtained a total of $1,716 in stamps for $522 in cash.

represented to the Laramie County Department of Public Assistance and Social Services that during the period she participated in the Food Stamp Program she did not have any cash resources.

Verification with a Cheyenne financial institution disclosed that did have resources in excess of those permitted for eligibility to participate in the Food Stamp Program.

V Fraud and Irregularities in the Issuance of Emergency Food Stamps

______, Case Aide. Cook County Department of Public Aid, Et Al., Chicago, Illinois

Case No. C-2742-5

Miss ______ was found to have circumvented CCPA regulations and procedures by preparing or accepting false food stamp applications in private homes, and at a political organization office, both outside of normal duty hours. CCPA personnel stated that she contrived to obtain about 50 EATP Cards from them at the FSO, stating that she would give them to the needy recipients. Various persons admitted receiving such cards directly (in-hand) from Miss ______ rather than through the mails, the usual way. They stated what Miss ______ had discussed with them obtaining the cards based on false applications. No one, however, stated that they paid Miss ______ anything of value in order to obtain the cards and the resultant food stamps. Seventeen persons, including Miss ______ were charged with violations of Federal laws in the U.S. District Court for Northern Illinois, Chicago.

$49,000 in Emergency Food Stamps, generated by Miss ______ were issued. A large number of additional food stamp cases by Miss ______ are being returned to CCPA for investigiation.

Miss ______, clerk, explains how the emergency food stamps were issued.

> "Yes. When I first started recording these Emergency Food Stamp Authorization Cards, I was instructed that certain cases bearing a white slip marked ______ were to be held out and given directly to Mr. ______ , a case worker. I was instructed that Mr. ______ had permission by his supervisors to take certain Emergency cards directly to his clients. Each of these cards was recorded in the Ledger Book and after the name of the recipient I would write ______

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to show that they were given directly to Mr. ______. About the first of December 1971, ______ started calling and requesting certain Emergency Food Stamp Authorization Cards be pulled and held for her. ______ requested this so that she could get the food stamp cards to her clients as fast as possible. I gave the list to my supervisor, Miss ______ and she must have received authority from her supervisor because I was told it was all right to pull these Emergency Food Stamp Authorization Cards and give them to ______. About five times in the weeks just before Christmas 1971, ______ telephoned and gave me the name of six to 10 cards each time that she requested be pulled for her. I remember how we all remarked in the office about how good and conscientious a case worker ______ was in making sure all her clients got their food stamps before Christmas. Myself and most of the other clerks in the office went out of the way to accommodate her. I would find the typist who had her clients' applications and ask them to type them immediately because Miss ______ was coming in that afternoon to pick them up."

Some of the recipients of the emergency issues explained how and why they obtained food stamps.

Mrs. ______, Senior Clerk, WUPC and Mrs. ______, Principal Records Clerk, WUPC, by their own admissions (C-2749-18), acting jointly, made applications for, and received and redeemed for food stamps, five EATP Cards in male names. Those cards provided $962 in food stamps for cash payments of $15. Mrs. ______ also admitted that she applied for a sixth card, worth $196 in food stamps for a cash payment of $3. Although this card was redeemed by someone, Mrs. ______ claimed she did not receive or redeem it, and that she did not know who did. Still another card, the seventh related to these two women, and worth $196 in food stamps for a cash payment of $3, was subsequently discovered (it also had been redeemed), but they were not confronted with it.

______, Commumity Representative, WUPC, stated (C-2749-13) that he encountered Miss ______ by the bus stop outside WUPC one afternoon, and mentioned to her that he wondered if he was eligible for food stamps. He said she asked him how many children he

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had, and said that she would look into it. About a week later, an EATP Card showing six people in the family, worth $144 in food stamps for a cash payment of $3, arrived in his mail. He said he did not have anything to do with preparing or signing the application for that card. He said he also did not know anything about three other EATP Cards in other names, and their applications, which were addressed to his residence (parents home). He would not admit involvement with one additional card, which was addressed to the apartment to which he later moved. ______ said he also knew Miss ______ through the ______ which they both frequented.

Miss ______, Senior Clerk, WUPC, now deceased, said (C-2749-19) she made one food stamp application in her own name, but added the names of four children (who were nonexistent) to make herself eligible. As a result of this application, whe was certified for food stamps for six months. She then made four other food stamp applications with Miss ______ using fictitious names but her real home address. In these applications, she fabricated a household, employer, landlord, and other details and furnished this fictitious material to Miss ______ who prepared the food stamps case files which generated EATP Cards. In so doing, Miss ______ also violated the CCPA regulations which require that applicants be interviewed in person. Miss ______ said that she obtained three of the four EATP Cards in fictitious names by taping the names to her mailbox. The fourth card in a fictitious name was returned to CCPA by the U.S. Postal Service, marked "addressee unknown". The EATP Cards redeemed by Miss ______ in her own name and others, provided a total of $1,368 in food stamps for cash payments of $599.

Most of the emergency authorization to purchase cards were redeemed at two currency exchanges.

Mrs. ______, Senior Clerk, WUPC, stated (C-2749-22) that she made two food stamp applications, in the names ______ and ______, with Miss ______. She added two fictitious children, and withheld income information (from a second job) on the ______ application. She received and used two authorization to purchase food stamps cards each month for nine months as a result of this application. The ______ application was rejected by CCPA, and no cards were issued against it. Two cashiers at a currency exchange (see the upcoming section of this report dealing with Miss ______

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and currency exchanges) admitted they requested food stamp applications from Mrs. ______, and she brought them to the currency exchange. They completed the applications, and submitted them through Mrs. ______. They subsequently received EATP Cards without ever having been personally interviewed by Miss ______. Mrs. ______ later said that she had done this. Also, she later said she received an EATP Card from Miss ______ in person at WUCP in the name of ______. The cards redeemed by Mrs. ______ provided $1,098 in food stamps for cash payments of $651.

A review of the EATP Cards obtained from IDPA also showed a large flow of them through the ______. A check of the case numbers for those cards against CCPA records showed that a large proportion of them were from Miss ______ case load. Personnel file information was obtained from ______ management. It was ascertained that three EATP Cards, all generated by Miss ______ cases, were addressed to the home addresses of each of two ______ cashiers (a total of six cards). Three cards, each in a different name, went to two of these cards were redeemed at ______ (according to their stamp on the back of the cards). Another three cards were addressed to the residence of cashier Mrs. ______. These cards had also been redeemed at ______.

Mrs. ______ and Mrs. ______ two clerks at one of the exchanges said that almost right away after they got their first EATP Cards, strangers from out of the neighborhood (i.e. not their regular customers, and not from the surrounding area) started coming into ______ with EATP Cards, for food stamps. These people always had one of Miss ______ business cards too, which they would present to the cashier along with the EATP Card. According to the cashiers these people would usually say something like ______ sent me", or words to that effect. Neither Mrs. ______ nor Mrs. ______ had any conversation with Miss ______ about this, but each of them felt obligated to Miss ______ for having gotten food stamps for them, they said, so they redeemed these cards without question.

Both cashiers said that the strangers had the necessary green identification cards to accompany the food stamp cards. In some instances, the EATP Cards were already endorsed on the back, and other times they (Mrs. ______ and Mrs. ______) had to get the customers presenting them to endorse them. They recalled that one one day, so many strangers with Miss ______ business cards and EATP Cards came into ______ that the exchange was running out of food stamps, and they had to not take any more EATP Cards that day. Neither Mrs. ______ nor Mrs. ______ would admit recalling any of the names used on these strange cards, but both said that almost all of the EATP Cards redeemed at ______ between December, 1971 and February, 1972, and which were for large amounts of food stamps for small cash payments, were brought in by people who presented Miss business cards.

Some applications were made at a local political office.

The overall investigation disclosed that Miss ______ had some ties with the ______. ______, WUPC employee, who received an illicit EATP Card through Miss ______ and to whose addresses several other cards were addressed, stated (C-2749-13) that he regularly saw Miss ______ at the ______ on Tuesdayand Thursday evenings during the summer and fall of 1971. Others he was there were Miss ______ (later Mrs. ______, wife of ______ (C-2749-11), secretary to ______; ______, a precinct captain and City of Chicago employee (C-2749-12; ______, precinct captain and City of Chicago employee (C-2749-18); ______,precinct captain and one-time personal bailiff to ______; and ______, ______'s business manager. It was noted that several of these persons obtained food stamps, or were named as recipients but claimed they did not receive food stamps, through applications handled by Miss ______. However, ______ denied seeing Miss ______ take any applications for food stamps at the ______.

Another person stated on the afternoon of the day I made this food stamp application, I telephoned my father, ______________ and during the course of the conversation my father told me that if I went to the 6th Ward Democratic Office I could get some food stamps. I believed, at the time, that I would just be given food stamps and did not know that an application was to be filled out. About 8:30 PM that evening I took a bus to the 6th Ward Democratic Office. The office is located on 71st around Calumet or Prairie. I just waited until I saw the office and then I got off the bus. I went into the office and there were about three people standing there talking. I asked one of the men standing there who I should see about getting food stamps. This man took me to an office, shut the door, and a woman introduced herself to me as Mrs. ______________.

In addition, it was found that eight other food stamp applications, all handled by Miss ____________ generated EATP Cards addressed to ______________ building. The applications were in a variety of real and fictitious names, and contained fictitious and misstated information. No one connected with the building, including Miss ________ her parents, her relatives, or other tenants of the building would admit to involvement in the matter. In addition, other cases handled by Miss ____________ were addressed to the address of ____________ who later became Miss ____________ husband (five applications; to the address of her brother, ____________ (four applications); and to miscellaneous addresses (four applications) otherwise having some connection to the ________________ family.

Other public aid employees were certified for food stamps. One case involved: An examination of Miss ________ case load disclosed that there were five food stamp applications bearing the address __________________. These are in the names of ______________________________________ ____________ is the home address of CCPA employee (Case Aide, but not in food stamps) Mrs. __________________ according to CCPA personnel records. Mrs. ______________ gave personal background information about herself and her family (OIG report C-2749-15), but denied complicity in the matter. She is distantly related to Miss ______________ and is the sister-in-law of Mrs. ______________ (who is the widow of ______________ brother).

Mrs. __________, made a food stamp application with Miss __________ in April, 1971. Although Miss __________ recommended approval of the application and certified her as eligible, her supervisor's review of the case disclosed that Mrs. __________ received Social Security and insurance income in excess of the allowable income level, and so denied the case. Mrs. __________ stated (C-2749-25) that in September, 1971, a male friend of hers, __________ (now deceased), who was a custodian of several buildings near WUPC, brought some food stamp application forms (Forms DPA 683a) to her home. She said __________ told here he knew someone in food stamps, at the office on 63rd Street. This was around September, 1971, she said.

She and the various children who were in her house that day sat around the table and filled out applications, and signed them. She implied that __________ then took the applications back to 63rd Street, Subsequently, the resultant EATP Cards started coming in the mail, to her home and to homes of her friends and relatives (whose addresses she used on the applications).

She further stated that around November, 1971, she went to WUPC to try, once again, to be certified for food stamps. She was referred to Miss __________. They talked a while, and Mrs. __________ did not apply. However, about a week later, Miss __________ came to __________ home with blank food stamp applications. They both (she and Miss __________) sat at the table and filled some out in various names and addresses. Mrs. __________ subsequently received some of the resultant EATP Cards, and various friends and relatives of hers got some too. After that, she said, Miss __________ would take care of the applications right from her office at WUPC. She recalls calling Miss __________ about three times and giving her about 15 names and addresses each time. She would not have to give her any Social Security numbers, children's names, employers, or other background; she said that presumably Miss __________ took care of that herself. On about three or four occasions, she said, Miss __________ would bring EATP Cards, in their mailing envelopes and accompanied by the necessary green identification card for each EATP Card, directly to her home in person. She recalls redeeming about ten EATP Cards for her own use. She said she believes she personally received about 40 or 50 EATP Cards in person from __________ and not through the mail. She said she cannot recall how many false applications she and __________ caused to be made, or who they were for.

The overall investigation developed leads to other people who were connected with Miss ____________ in some way, or to whom suspicion pointed as a result of their names, addresses, or other data being shown on food stamp applications which were handled by Miss ________________.

V. Employee of Food Stamp Fraud

File No. T-2745-251

STATE DEPARTMENT OF PUBLIC WELFARE, AND BEXAR COUNTY ISSUING OFFICE, SAN ANTONIO, TEXAS -- ISSUE OF FOOD STAMPS TO INELIGIBLE AND/OR FICTITIOUS PERSONS

Caseworkers ______________ and ____________ certified ineligible and/or fictitious persons to purchase food stamps and recruited "runners," who in turn recruited other persons to act as "recipients" to be certified and buy stamps. The "recipients" were certified on the basis of false information, including income and number of dependents, to qualify for an "emergency issue" of stamps. After purchasing the stamps, the "recipient" met the "runner" at a prearranged location where the stamps were divided. The "recipient" kept $50.00 in stamps, and the "runner" turned the remaining stamps over to ___________ who discounted them through unidentified grocers or other outlets. The cash received by _______ was then divided between the "runner," the informant, and possibly other persons involved in the scheme. The principal runners now identified included __________, ___________, and __________ all of San Antonio.

Details of the scheme were provided as follows by an informant:

He was receiving food stamps from ____________, his Caseworker, at the Food Stamp Center in San Antonio about four or five months after the Food Stamp Program began. In 1969, he is not sure of the month, _______ asked him if he was interested in making some money. _________ told him that if he would send "clients" to him at the Food Stamp Office, he would see that they got stamps and it did not matter who the "clients" were or whether they were qualified to get stamps. He asked if the "client" should use his legal name. ____________ said the "client" could use any name and a false address.

He began to send "clients" to Caseworker __________. After __________ approved the "client," the "client" would get the stamps and then meet him. The "client" would give the informant the stamps, and he would give the client some stamps for getting them. He would later meet the Caseworker somewhere to give him the stamps and the Caseworker would give him some money. How much money he got depended on how many stamps were given to __________. For instance, if he gave the client $200 in stamps, the Caseworker would give him about $30.00. About a month or two before the Caseworker __________ was transferred from the Food Stamp Office, the informant told__________ he was not getting enough and the Caseworker started giving him about 50 percent of what was left after they paid the "client."

____________ was working at the Food Stamp Center several weeks before _______ was transferred, and he knows that ________ was helping _______approve "clients: for food stamps, whether the "client" was qualified or not. After ______ was transferred ______ began to handle the same "clients" that _______had handled, as well as to get new "clients". After ________ left the Stamp Office, _________ still sent "clients" to be approved for stamps. Some other people besides himself who were sending "clients" to ________ for stamps were ______ and __________. He was also told by _________ that ________ sister ________ was sending clients to _______ for food stamps. ________ told him that a _________had brought or sent some "clients" to him _______ while ______ was still a Caseworker at the Stamp Office.

A second informer gave additional details, as follows:

Some of the "clients" that he sent to ________ or _______ did not have the number of children that they were given stamps for. ______ and ____ both knew about this and would show that the clients had several children or dependants. He used to send an average of about 15 people each week to the Stamp Office to get stamps.

________ told him that ______ said that if he ______ ever told about what was going on, he would have him killed when he came out on bond.

He furnishes this information in regard to the way he and his relatives were able to obtain food stamps under his right name and friends and relatives under fictitious names that were given to them by ______ ______. ________ did not work at the Food Stamp Center that he knows of. He had a list of written names that these friends and relatives would answer to when they arrived at the Food Stamp Center to pick up the stamps.

He first met ______ when he worked at the City Welfare Office, and _____ used to pick up food commodities. About a year ago, he met ______ at the Food Stamp Center at the rear of the Police Headquarters. ________, at this time, asked him if he needed some food stamps, and he told ________ yes as he was injured. ________ told him he had a way that he could get the stamps, and instructed him to go into the waiting room and someone would call his name. ________ also told him that regardless of how much in food stamps he received from ______ he would get only $50.00 worth and _______ would receive the rest.

He agreed and went into the waiting room. His name was called and he went into _______ office where ________ filled out some papers. All __________ asked was his name and address. At this time, ________ gave him $186.00 in food stamps and upon leaving the office he met ________ where he gave _________ $136.00 worth of food stamps. He returned again the following month and received the same amount of stamps and gave _________ the same amount. The following visit to the Food Stamp Center he told _________ that his wife had another child and _______ gave him $196.00 worth in food stamps and _______ receive $146.00, while he retained $50.00 worth as usual.

A clerk in the Issuing Office supplied the following information concerning certification and issue procedures:

_________ told him he could also get stamps for other people if he would send them to him. _________ told him that they would get the same deal that he had received. He sent the following people to ________ to obtain food stamps: his uncle, ________ who lives off ________ Avenue (this uncle got his stamps under his right name, but the rest of the people are supplied with fictitious names); ________ an aunt who lives at ________; his mother ________ of ________ Street; ________ a sister of ________ and a friend by the name of ________, who lives at an unknown address off ________ Street. All of the above relatives and friend went to ________ and obtained these food stamps and gave ________ his stamps for "his services."

She recalls an incident where Mrs. ________ a Clerk in the Food Stamp Issuing Office, was authorized an emergency issue of food stamps by ________ former Caseworker, for the simple reason that she was getting a divorce. She was told that Mrs. ________ and Miss ________ complained to ________ about this issue. Once again, as far as anyone knows nothing was ever done concerning this matter.

During the time that she was conducting monthly posting on the 811 forms (Receptionist's Daily Tally Sheet), she noticed several times when changes had been made for the purpose of balancing. At that time, emergency issues were not on a fixed basis. The purchase price on the amount of coupons issued fluctuated. Therefore, the coupon figures could be changed to balance the books. For example, if a person was supposed to receive $56 in coupons for $3, and the cashier overissued a $20 book, the $56 would be changed to $76. This would take care of the issuance and the cashier's 812 (Cashier's Daily Report) would not reflect an overissue, but instead would balance. The ones that she has seen where changes were made were either in ________ or Mrs. ________ handwriting.

The investigation is continuing in close liaison with the United States Attorney to determine dollar loss resulting from the scheme and identify other persons who have participated. Separate reports will be issued covering the several matters now under investigation.

V. Employee of Food Stamp Fraud

Fraudulent Acquisition of Authorizations to Purchase Food Stamps and Trafficking in Food Stamps

Sacramento, California

Case No. S-2747 - 2

______, former supervisor in the Sacramento Department of Social Services, Food Stamp Unit, was convicted by the State on a charge of embezzlement involving the illegal acquisition of authority to purchase food stamp cards (ATP). Seven others, including relatives and coworkers, were also found guilty on similar counts.

Mrs. ______ admitted to embezzling over $90,000 in ATPs during the period July 1969 through February 1971. The ATPs were subsequently converted into food stamps which were either sold at a discount or used for food. She said that she was able to successfully embezzle such a large amount because of the lack of controls, supervision, and interest on the part of her superior in the Department of Social Services.

State authorities believe the total amount embezzled may exceed $250,000 based upon a known figure of 246 ATPs fraudulently cashed and recovered during a seven-month period. These ATPs were worth over $27,000. A complete check for all fraudulent ATPs redeemed between July 1969 and February 1971 was not made by the State investigators.

A supplemental investigation was initiated and the following statements were taken from two of the co-conspirators:

MR. X

"I first became involved in the illegal cashing of ATPs six months after the food stamp program in Sacramento started in the spring of 1968. My mother, ______ would give me one or two ATPs per month to buy food for my wife and myself. I would cash the ATPs myself using the last name that appeared on the ATP and a different first name. Sometimes I would use fictitious

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names but I do not remember the names. I would go to the bank and show them the identification card that came with the ATP. They never asked for additional identification. About the time of my sister's wedding ______ in the summer of 1969, I started receiving 8 or 10 ATPs per month from my mother (500.00 or $600.00). I went along at this level for the next 6 or 8 months. After the audit conducted by the United States Department of Agriculture we quit for three months. The amount then gradually increased to 20 ATPs per month (3000.00) to me. I went along at this level for the next 6 or 8 months to the fall of 1970. The last three or four months of the operation I had cashed approximately $30,000.00 worth the ATPs (face value). I believe I received approximately $60,000.00 (face value). I received $25,000.00 from the operation and ______ received approximately $25,000.00 I would pay my mother $100.00 for each $1,000.00 in ATPs.

In the fall of 1970, I got ______ to cash ATPs for me. I had sold stamps to him before that and got narcotics from him for stamps. I have no idea who he sold the stamps to.

My mother got the ATPs at the Welfare Department in Sacramento, where she worked, by duplicating legitimate ATPs with high stamp value (large number of stamps for a low purchase price). She said she did something with the record books so they would not get caught but I do not know what she did.

Between my mother, myself, ______ and ______, we received $150,000.00 to $200,000.00 in ATPs (face value)."

MR. Y

"I first became involved in the cashing of illegal ATPs in January or February 1970. I was a heroin addict and I had known ______ for approximately two and a half years prior to this. He was also on drugs. ______ asked me to cash ATPs for him. He paid me with drugs or food stamps to live on. I cashed ATPs for him twice a month for four months. I would cash 35 to 40 ATPs each time for a value of approximately $100.00 each ATP. I cashed a total amount of

$15,000.00 face value. I know of no other persons in ______ family involved in cashing illegal ATPs. I met ______ at one time but I do not know his connection.

Approximately one year prior to cashing ATPs for ______ I started receiving food stamps from ______. I received food stamps from ______ approximately ten times during the year and would pay him 50¢ on the dollar. During that time I was living at ______, Sacramento and was buying my food at ______. In March or April 1969 ______ asked me if I had any food stamps to sell. I had been buying food there approximately ten months prior to this and using food stamps. He purchased approximately $1,500.00 in food stamps from me prior to the sale that resulted in his arrest. He also purchased a color TV from me in March or April of 1970 and paid me $120.00 in cash. He knew the TV was stolen. I purchased the TV from ______ for $100.00. ______ purchased stamps from me 12 or 15 times and would pay me 50¢ on the dollar. This is the only store that I sold food stamps to. I heard that someone stated I had been selling stamps at ______ in Sacramento but this is not true. I believe a ______ was also selling food stamps to ______ but I am not sure. He lives near ______ store.

I have never heard of ______ and I do not know his connection in this situation. I had no idea where ______ was getting the ATPs. I purchased most of the narcotics I used from ______. I have no idea where he got the narcotics."

He further stated orally as follows:

"He sold food coupons to several hippie type individuals but does not remember their names as his mind was clouded due to the use of heroin. He does remember selling food coupons to a ______ a couple of times for a total of $100. He wanted ______ name left out of his sworn statement for fear of reprisal. He has been off heroin for three years and has attempted to straighten himself out. He did not want trouble from ______ and his friends.

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V. Employees of the Food Stamp Program

_______, Food Stamp Program
Bogalusa and Franklinton, Louisiana
Misappropriation of Food Coupons
Case No. T-2741-26

Examination of over 16,000 Authorization of Purchase (ATP) Cards, executed from March through August 1973, disclosed 239 cards, which were negotiated through FSIO employees Mrs. ______ and Mrs. ______ and former FSIO employees Mrs. ______, Bogalusa, and Miss ______ Covington, Louisiana, contained alterations indicating misappropriation of $8,700.00 in food coupons.

Twelve food stamp recipients furnished statements of having purchased less than their full allotment and less than that shown on their ATP Cards as having been purchased. Four of the twelve recipients purchased coupons at FSIO windows operated by Mrs. ______ during April through October 1973, in which a total of $202.00 worth of coupons were misappropriated. Eight of the twelve recipients purchased coupons at FSIO windows operated by Mrs. ______ during September 1972 through September 1973, in which a total of $798.00 worth of coupons were misappropriated.

The three FSIO employees, Mrs. ______, Mrs. ______, and Mrs. ______ were suspended on November 28, 1973, by the ______ Police Jury.

V. Employees of Food Stamp Program Fraud

Mrs. _____ and Mrs. _____
Clerks, Floyd County, Food Stamp Issuance Office
Prestonsburg, Kentucky -- Shortage of
Food Stamps and Funds
Case No. C2741-14

Mrs. ______ and Mrs. ______, former Control Clerk of the Public Assistance Office who resigned in May 1971, said they inventoried Mrs. ______ food stamps at the Prestonsburg bank in March 1971, and discovered a shortage of over $8,000, which was made up by Mrs. _____ with food stamps which she told them she had hidden in the Prestonsburg issuance office. Mrs. ______ and Mrs. ______ said that they had left food stamps in the issuance office without their supervisor's knowledge, in order to avoid returning them to the bank at night.

Between the months of May 1968 and September 1969, cash deposited in banks was $12,208.75 less than the total of Authority to Purchase Food Stamp (ATP) cards issued in the county, while food stamp issuance errors totaled $14,800. Mrs. ______ daily issuance records showed substantial agreement with corresponding ATP card totals, while Mrs. ______ daily records showed numerous discrepancies and alterations. Mrs. ______ and Mrs. ______ another control clerk, said they had compared monthly figures with Mrs. ______ to see that all totals agreed with figures on monthly reports prepared by Mrs. ______.

Since it appeared that one or both issuance clerks had the opportunity to pocket food stamp recipients' money and destroy ATP cards, 34 recipients whose household control cards showed they had missed purchasing their monthly quotas of food stamps were contacted. Twenty-seven of these said they had not missed their purchases.

In August 1971, an audit of the Floyd County food stamp issuance office at Prestonsburg, disclosed shortages of $26,500 worth of food stamp coupons and $12,200 in cash.

V. Employee of Food Stamp Program Fraud

______, Gary Indiana
Issuance of False
Food Stamp Certification Documents
Case No. C-2742-6

A Supervisor stated that "On June 26, 1972, I discovered several fraudulent Household Issuance Record Cards (FS-8 cards), against which $1,488 worth of food stamps were issued for a cash outlay of only $18, resulting in a US Department of Agriculture bonus of $1,470. I checked these cards out and found that the recipients to whom they were made out were not known at the addresses indicated on the cards, and there were no applications or case records in file to support the cards. All of the cards bore the initials of Case Aide Mrs. ______, which indicated the cards were made up by her."

"The next day, June 27, 1972, I went around and visited each of the addresses on the FS-8 cards with the assistance of ______ a General Student Assistant in the office. I found that the persons whose names appeared on those cards were not known at those addresses. When I returned to the office I ordered a check of all FS-8 files, which produced yet another card with ______ initials as the maker, and ______ name as the proxy. This card was made out in the name of ______, East Chicago, which also failed to check out. A purchase had been made on this card on June 23, 1972."

The total amount of food stamps purchased on the aforementioned FS-8 cards was $3,350 for a cash outlay of only $68.50, resulting in a US Department of Agriculture bonus of $3,281.50. Another $392 worth of food stamps would have been purchased for $10 cash had not Mrs. ______ stopped the ______ transaction.

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VI Unauthorized Use of Food Coupons

Arcata, California -- Trafficking in Food Coupons
Case No. SF-2748-146

Investigation disclosed that_____,an unemployed welfare recipient and former owner of the ________ restaurant was the individual who had purchased the meat for use in his establishments with food coupons and that _____ was in no way involved.

______, owner of ______, ______, Eureka and his son, ______ were interviewed on January 20 and 23, 1975 at their place of work and stated:

"A Mexican-American man had been coming to their establishment on frequent occasions during the past two years to purchase meat. He would purchase $10-$30 worth of meat at a time. On one occasion, sometime in January 1974, the man asked for an invoice to be made out in the name of the ______ restaurant. The man was told by ______ that he ______ could not accept food coupons for meat to be used in a restaurant. The man then stated that the meat was for himself and paid for it with food coupons without further requesting an invoice.

On two subsequent occasions the man purchased meat for which he paid cash and requested invoices made out to the ______ ______. The man has since come in several times to purchase meat, though in smaller quantities, and used food coupons to pay for it. Neither ______ had been able to learn the name of the man."

VII Counterfeiting

______, ______, and ______ Fullerton, California

Counterfeiting Food Coupons

Case No. SF 2742-22

This report was initiated as a result of arrests made on May 28, 1974, by the United States Secret Service for counterfeit food coupon operations in Fullerton, California. Those arrested were: ______, ______, and Mrs. ______ allegedly married to ______. Seized were $350,000 worth of counterfeit food coupons, a printing press, other printing material and equipment, and two loaded weapons.

______ signed a consent search for the garage and apartment of his residence, which ultimately resulted in the seizure of $750,000 worth of counterfeit food coupons along with plates and negatives. Also, in his apartment were several uncut sheets of counterfeit food coupons which were seized.

Ernest J. Kun, Special Agent, U.S. Secret Service in charge of this investigation provided the following additional detail and backround information:

> "______,an experienced printer, told him that while unemployed in San Francisco he was a food coupon recipient. After examining the food coupons he realized that it would be quite simple to counterfeit them due to the simplicity of the design and limitation of the coloring. He considered the $5 denomination coupon to be easy to produce because of the maroon shadings involving no other colors and the ordinary quality of the paper which would not be too

difficult to acquire. An offset press was also necessary to make the coupons. It was at this point that he conceived the idea to counterfeit the coupons and later got together with ______ and ______. They pooled their resources to buy the necessary equipment. He, ______, decided to come to Orange County to print the coupons because he was not known in that area.

Secret Service had an undercover Agent in on the investigation acquiring information. They did not wish to delay the apprehension and seizures for fear of allowing the coupons to be circulated. To the best of his knowledge, none of the coupons were released into circulation. All of the suspects felt that they would have no trouble in unloading the coupons in the Los Angeles and San Francisco areas, and back east.

The coupons were classified as being good to very good. They had a supply of the cardboard stock to be used for the covers of the books and the necessary staples and cutting tools. The $5 denomination coupons were printed on sheets of ordinary bond paper, five coupons to a sheet, and some coupons had serial numbers."

Reporting Agent examined some of the counterfeit $5 denomination coupons and noted that some were a shade lighter in color compared to the legitimate coupons he had in his possession at the time. The paper was somewhat less glossy and for someone experienced, this characteristic would be immediately noted.

It should be pointed out that the suspects contemplated putting the coupons in books, which would not have been necessary if they were going to deal with an authorized retailer, as the retailer, when redeeming them at the bank does not have them in books. All banks prohibit coupons in books for counting purposes, and have in the past, instructed retailers as such. It is possible that the suspects were not completely aware of the procedural steps food coupons undergo until their ultimate redemption.

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VIII Postal Theft

______, Postal Employee and ______, Owner, ______,
Columbia, South Carolina

Illegal Acquisition and Possession of Food Coupons

Case No. AT 2742-10

"On August 6, 1974, ______ was apprehended for the theft of mail and had in his possession, on apprehension, a food stamp letter addressed to another person. During questioning, ______ admitted to the theft of food stamp test letters and advised that he had sold the coupons contained in these letters to a man know to him as ______, the operator (owner) of ______.

A search warrant quthorizing the search of ______ was obtained, based upon information furnished by ______. This search was accomplished and disclosed the food coupons book covers of the food stamp books that were mailed in test letters on July 31, 1974 and August 5, 1974.

Upon being questioned, ______ admitted that he had purchased food coupons from a person known to him as ______ and that he had been making these purchases since about May 1, 1974. He, ______, identified the food coupons book covers, recovered during the search, as being purchased from ______.

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ANNEX B

Audit Reports of Food Stamp Program Departments

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Audit Reports of Food Stamp Program Departments

Report No.	Title
2714-216-SF	Los Angeles County Department of Public Social Services, Los Angeles, California, as of March 14, 1974.
2713-3-W	Food Stamp Program, Social Services Administration, Department of Human Resources, Washington, D. C., as of October 31, 1970.
2714-222-C	Cook County Project Area, Food Stamp Program, FNS, Chicago, Illinois, as of June 30, 1972.
2713-11-N	Food Stamp Program, New Jersey Division of Public Welfare (Monmouth County), Trenton and Asbury Park, New Jersey.
2714-280-SF	Hawaii Department of Social Services and Housing, Public Welfare Division - Oahu Branch - Honolulu, Hawaii - Food Stamp Program, as of October 22, 1974.
2713-15-S	Washington State Department of Social and Health Services, Olympia, Washington, Food Stamp Program, as of May 10, 1973.
2714-284-SF	Food Stamp Program, Santa Clara County Department of Social Services, San Jose, California, as of November 27, 1974.

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Audit Reports of Food Stamp Program Departments

Report No.	Title
2713-22-Hy	Massachusetts Department of Public Welfare, Boston, Massachusetts, Food Stamp Program
2714-283-Hy	Department of Social Services, Baltimore, Maryland, Food and Nutrition Service, Food Stamp Program
2714-293-Hy	Philadelphia County Board of Assistance, Philadelphia, Pennsylvania, Food and Nutrition Service, Food Stamp Program
2713-17-Ch	Michigan Department of Social Services, Lansing, Michigan
2714-538-Ch	Cuyahoga County Department of Public Welfare, Cleveland, Ohio
2714-220-Te	Orleans Parish Food Stamp Program Certifying Activities, New Orleans, Louisiana
6324-61-Hy	Audit Report on the Evaluation of Impact Dur to Sudden Mass Pariticipation in the Food Stamp Program.

Audit Reports of Food Stamp Program Departments

Los Angeles County Department of
Public Social Services
Los Angeles, California
As of March 14, 1974
Report No. 2714-216-SF

Forty-five percent of the ATP's in our statistical sample were issued for improper amounts, based on supporting data in the related case files. The vast majority of these (about 39 percent) resulted in bonus coupons being issued in excess of the amounts authorized. These overissues in bonus coupons represent a potential program loss (Federal funds) of at least $756,000 during the test month of July 1973.

We also found (through the use of computer operations) 220 instances of apparent duplicate issues of ATP's during July, of which 110 were redeemed by the recipients. These redeemed duplicates represent a program loss of about $4,700 in bonus coupons. Another area of weakness concerns the county's computer-generated exception listings. These listings represent a control designed to identify ATP's that may have been redeemed by unauthorized persons, or for not being fully utilized.

The types of conditions found during our current audit are similar in nature to situations we have found and reported in previous audits of this project. Prior to our releasing this report, the county prepared a comprehensive written plan aimed at correcting many of the problem areas identified by this audit.

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Audit Reports of Food Stamp Program Departments

Social Services Administration
Department of Human Resources
Washington, D.C.
As of October 31,1970
Audit Report No. 2713-3-W

This audit was requested by the Deputy Administrator, Food and Nutrition Service and the Director, Social Services Administration. Their reasons for requesting the audit were: (1) inadequate certification services despite joint FNS and SSA efforts to simplify procedures and substantially increase the number of food stamp caseworkers; (2) long delays by SSA in submitting monthly Reports of Participation and Coupon Issuance (Form CFP-256); and (3) an increase in the nonpublic assistance (NPA)households participating at the minimum purchase level.

Our audit tests showed that SSA control of the Food Stamp Program needed improvement because:

1. Procedures permitted the improper multiple issuance (two or more) of ATP's to recipients during the same month.

2. Facilities for safeguarding ATP's and ID's were inadequate.

3. Procedures for accounting for and controlling the use of blank ATP's were inadequate.

4. The computer file of participants was not revised when ATP's were returned by the Post Office as undeliverable and security over the returned ATP's was not adequate.

5. The computer was not effectively utilized as a management tool as it was not used to: (a) identify duplicate issuances; (b) make reconciliations of ATP's issued with ATP's redeemed; (c) prepare skip pattern reports to determine irregular participants who are required to be recertified; (d) identify and eliminate those who were not participating and should be removed from food stamp rolls; and (e) --research the validity of requests for manual (emergency) issuances prior to making such issuances.

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6. Management took little or no action to correct weaknesses as they became aware of them. The lack of central supervision contributed to excessive delays in corrective actions because numerous discussions took place between SSA staff offices without decisions being reached and implemented.

7. SSA had not carried out its responsibility to: (a) completely account for collections certified by issuing agents as being deposited in the Federal Reserve Bank; and, (b) assure that issuing agents promptly deposited collections received from the sale of food stamps.

8. SSA had not required the food stamp coupon bulk storage facility to maintain perpetual inventory records.

9. SSA had not issued complete instructions to banks and credit unions acting as issuing agents.

In the audit we reconciled the listings of recipients with negotiated June ATP's and found that 738 recipients negotiated improper duplicate ATP's causing USDA to lose $47,800 (the bonus value of the erroneous food stamp issuances). In addition, in June 290 recipients negotiated expired ATP's with a bonus value totaling $9,700.

Audit Reports of Food Stamp Program Departments

Cook County Project Area
Food Stamp Program, FNS
Chicago, Illinois
As of June 30, 1972
Audit Report No. 2714-222-C

Our audit review of 426 random sample food stamp households resulted in our identifying 30 households with an overissuance in bonus food coupons of $3,033.50 for the period August 1971 through January 1972. Since our analysis was performed using random sampling techniques, we are able to project the bonus overissuance to the entire universe of households participating in Cook County for that period. Tee projection so calculated is $784,000, and we can state with 95 percent certainty that the total amount of bonus coupon overissuance was at least $ 535,000, and not more than $1,033,000. This compares to a total bonus issued for the six months of $29,460,000. We located an additional 90 procedural errors in certification that in most cases did not result in bonus overissuance, but were caused by lax certification procedures. Certification control was considered by us to be inadequate.

Our sample evaluation also identified 17 food stamp participation cases for which no case file supporting food stamp certification was available for our analysis. Again using a statistical sampling projection, we can estimate with 95 percent certainty that case files for at least 3,079 recipient households were unavilable in the public aid district offices. Consequently, there was no assurance for these cases that Federal funds involved were being properly utilized.

Numerous replacement ATP cards were issued by district public aid offices to replace those cards reported lost, stolen, or destroyed. Subsequently, in some instances, both the original and its replacement card were negotiated. (About 3,800 in a year.) Some ATP cards were used by the recipients illegally, and some were negotiated by second parties not authorized in any way to negotiate the cards. Illegal bonus amounts accruing to the negotiators were $1,307 for 45 cases we analyzed in detail.

Interest costs to the Federal Treasury were estimated at about $57,800 for one year because of delays in transmitting

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funds from the sale of food stamps to the Federal Reserve Bank. Control could be improved over serially numbered emergency ATP cards. At some offices inventory and issuance controls were inadequate and resulted in cards being unaccounted for. Records supporting issuance of ATP cards were not always current because some district office personnel lacked an understanding of the need to prepare and submit updated authorization information. This resulted in bonus overissuances in some cases.

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Audit Reports of Food Stamp Program Departments

Food and Nutrition Service
Food Stamp Program
New Jersey Division of Public Welfare
(Monmouth County)
Trenton and Asbury Park, New Jersey
As of December 15, 1972
Audit Report No. 2713-11-N (Supplement)

The agreed to results of our audit showed that of 386 households selected for review on the basis of statistical sampling techniques, 44 or 11.4 percent were found to be ineligible for FSP participation based on various certification errors attributed to the use of "self-certification". These ineligible housefolds received $9,881 in bonus stamps during their respective certification periods or through March 31,1972, whichever was shorter. We projected these audit results on the basis of statistical sampling procedures, (at a 95 percent confidence level on a one-sided basis) and concluded that at least $70,787 in bonus stamps were issued to ineligible households during the above identified periods. This projection was based upon the 3,866 NPA households participating in the FSP in Monmouth County as of October 1971.

Our audit further disclosed that there were an additional 74 households which were eligible for participation in the program but were overissued bonus stamps totalling $5,139 and 50 others wihich were underissued bonus stamps totaling $2,052. Because management did not wish to review those cases found by audit to have been over or underissued $5 or under per month, they would not agree that 64 of these type cases were incorrectly issued food stamps. The remaining 60 cases were concurred in by management as having been over or underissued food stamps.

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Audit Reports of Food Stamp Program Departments

Hawaii Department of Social Services and Housing
Public Welfare Division - Oahu Branch
Honolulu, Hawaii - Food Stamp Program
As of October 22, 1974
Report No. 2714-280-SF

Forty-nine percent of the files in the statistical sample had received an incorrent issuance of food coupons. The majority of these (36 percent of the files in the sample) had received an excess issue of bonus coupons. Those overissuances in bonus coupons resulted in a program loss of federal funds of at least $51,100 during the test month of May 1974. Errors had occurred throughout the factors affecting eligibility and basis of issuance in such a manner and frequency as to make the quality of certification and recertification work unacceptable. Conditions reported in our prior audit (2714-173-S) continued to exist. Necessary claim determinations were not being prepared and collection efforts to recover overissues of bonus coupons were usually not attempted. There was an absence of control over ATP's returned as undeliverable in the mail. Some recipients received duplicate benefits during the month of May, while income to some PA households had been disregarded.

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Audit Reports of Food Stamp Program Departments

Washington State Department of Social and Health Services
Olympia, Washington
Food Stamp Program
As of May 10, 1973
Report No. 2713-15-S

The scope of this audit was limited to a review of the State Agency's use of personnel funded by the Emergency Employment Act (EEA) and the resulting effect on the State Agency's claim for reimbursement of certain costs. Coverage was extended into all local offices

The State Agency had received payment and was preparing claims for reimbursement of costs which the State Agency did not incur. Personnel who were fully funded by the Federal Government through another Federal program had completed a significant portion of the work which the State Agency was claiming against Food and Nutrition Service (FNS) for reimbursement. Some local offices had used unqualified personnel in determining eligibility for nonassistance food stamp households.

The audit recommended that $8,990.94 be recovered from the State Agency claim for reimbursement for September 1971; disallow $203,745.66 from the State Agency amended claims for reimbursement for the October 1971 through March 1973 period.

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Audit Reports of Food Stamp Program Departments

Santa Clara County Department of Social Services
San Jose, California
As of November 27, 1974
Report No. 2714-284-SF

Approximately 50 percent of the redemptions included in our statistical sample were issued for improper amounts, based on supporting data in the related case files. The vast majority of these (about 43 percent) resulted in bonus coupons being issued in excess of the amounts authorized.

The types of conditions regarding certification actions found during our current audit are similar in nature to situations we have found and reported in previous audits of this project.

The four most common types of conditions found causing program losses were (a) understatement of gross income, (b) overstatement of deductions from income, (c) overdue recertifications, and (d) clerical errors.

The overissues in bonus coupons represent a potential program loss (Federal funds) of at least $260,700 during the test months of June and July 1974, which represents close to eight percent of the total bonus amount during the test period.

Audit Reports of Food Stamp Program Departments

Food and Nutrition Service
Massachusetts Department of Public Welfare
Boston, Massachusetts
Food Stamp Program
As of December 3, 1974
Audit Report No. 2713-22 Hy

The Massachusetts Department of Public Welfare (State Agency) needed to develop controls and/or obtain additional well trained personnel to better assure the accuracy and timeliness of certification and recertification on actions. In this regard, our reviews at 11 Welfare Service Offices reported bonus authorizations totaling $82,256, which were issued to 521 households whose eligibility was questionable.

The State Agency (S/A) had not fulfilled its obligation to assure the WSO's processed Reports of Claim Determination wherever it was established that FS bonus coupons were improperly issued. Our coordinated audit disclosed a general unawareness of this requirement.

The Quality Control Unit (QC) was not adequately trained or sufficient in size to perform its information gathering function and assure the quality of NPA certifications. As a result, the QC unit had not followed prescribed sampling procedures and the corrective action intended by QC was not accomplished.

Cash received from FS sales was not always timely deposited, and differences in FS coupons issued and authorized were not resolved. Similar conditions had been reported in two prior audit reports, No. 2715-72-N, released in June 1971, and No. 2713-17-N, released January 10, 1974

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Audit Reports of Food Stamp Program Departments

Department of Social Services
Baltimore, Maryland
Food and Nutrition Service
Food Stamp Program
As of June 5, 1974
Audit Report No. 2714-283-Hy

There was a need for increased program evaluation, supervision, and training of District personnel and modification and increased utilization of EDP systems to better assure administration of the BCFSP in line with program objectives. The need for such actions were evidenced by our audit findings which disclosed: (1) food stamp bonus overissuanced to Public Assistance (PA) and Non-Public Assistance (NPA) households approximating $225,000 monthly; (2) questionable accountability and follow-up on returned ATP cards and/or duplicate cancellations, with combined bonus values estimated at $95,000; (3) substantial certification errors in District operations resulting in $34,864 of potential food stamp bonus overissuances to 50 of 58 cases reviewed; and (4) substantial administrative inefficiencies costing city management about $10,000 per month in extra cash expenses and lost manpower. Prior OIG Audit Report No. 2714-31-W had reported similar type conditions.

The automated monthly review and reconciliation of approximately 85,000 transactions was not fully effective, thus reducing assurances that FSP participants received adequate servicing or were eligible for the extent of FSP benefits provided. In terms of measurable impact, we estimated that $125,000 of excessive bonus issuances had occurred monthly and that 90 mandays per month were not being effectively utilized. The bulk of the FS bonus overissuances were attributable to 2,061 NPA households which were overdue for recertification from 1 to 15 months. These households received an estimated $120,000 of bonus coupons monthly, of which an estimated $65,000 was distributed in excess of household needs.

Necessary action had not been taken to update participants' bonus food stamp coupon issuance rates relative to 14,819 on Supplemental Security.

As a result, excessive bonus stamps approximating $100,000 monthly were made available to SSI households from March 1974 through May 1974. Additionally, an estimated 700 SSI food stamp participants' ATP's were being delivered to the wrong addresses and subsequently sent to food stamp Fiscal Operations because ~~of~~ EDP personnel elected not to update client addresses from the SSI/SDX computer tapes.

Baltimore City Food Stamp Program (BCFSP) management needs to reevaluate certain policies to improve program operations and to ensure that food stamp clients are adequately serviced. In this regard, we noted that: (1) food stamp procedures allowing clients to choose whether they wanted one or two monthly ATP's were not followed: (2) EDP was not effectively utilized to eliminate or reduce administrative functions now performed manually; (3) follow-up and controls over duplicate cancellations were not effective; and (4) city employees both working on, and participating in, the FSP were not identified for review by BCFSP management. Consequently, clients were not afforded the servicing they were entitled to receive; excessive food stamp administrative costs in labor and money were estimated at $10,000 monthly; duplicate ATP redemptions involving approximately $45,000 in food stamp bonus stamps were not timely evaluated; and apparent FSP overissuances were received by BCFSP employees.

Audit Reports of Food Stamp Program Departments

Philadelphia County Board of Assistance
Philadelphia, Pennsylvania
Food and Nutrition Service
Food Stamp Program
As of June 26, 1974
Report No. 2714-293-Hy

Controls were not sufficient to insure that households were properly certified for FSP participation. Deficient areas included: (1) timely terminiation of PA cases; (2) zero purchase requirement households; and (3) classification of mixed households. As a result, our selected reviews of 182 PA and 105 NPA cases revealed 133 cases, or 47 percent, which were certified to receive questionable or unsupported bonus issuances of approximately $81,983 during the current period of certification.

The County Board of Assistance (CBA) had not utilized computer printouts submitted by the Social Security Administration through the State Agency in February 1974, to update the FSP bonus coupon rates for approximately 17,294 Supplemental Security Income (SSI) households. As result, excessive bonus stamps approximating $150,000 per month have been and will be made available to SSI clients from March 1974 until corrective action is initiated.

The CBA did not assure that Districts followed prescribed procedures when issuing zero purchase emergency issuances during July 1973; when the distribution of public assistance checks was delayed. As a result, the CBA was unable to account for approximately $250,248 in bonus stamps issued during July 1973.

Audit Reports of Food Stamp Program Departments

Michigan Department of Social Services
Lansing, Michigan
As of November 27, 1974
Audit Report No. 2713-17-Ch

Timely and effective action was not always taken to collect balances outstanding on claim determinations totaling over $100,000. Also, claim determinations were not always prepared for overissuances or handled in a timely manner after they were prepared. In addition, the controls over collections were weak. As a result, funds have been lost to USDA.

Substantial error rates continue in the certification of households at some project areas. For the month of June 1974, we estimate that the overissuances exceeded $38,000 at the 19 project areas sampled, out of a total bonus coupon issuance of $1,149,000.

Replies have not been prepared by the State agency for Audit Report Nos. 2713-8-C and 2713-14-C. We found that the recommendations for Details -2 of Audit Report No. 2713-8-C had been implemented. However, the actions taken on Details-1 and -3 of that report were not effective in correcting or preventing recurrence of conditions pertaining to certifications and internal controls. In that report, we pointed out that these findings were repeats of previously reported conditions. In a special Audit Report No. 2713-14-C, we reported that internal controls were still lacking at most project areas. During this audit we again reported that necessary controls for accountability were not in effect.

Audit Reports of Food Stamp Program Departments

Cuyahoga County Department of Public Welfare
Cleveland, Ohio
As of October 15, 1974
Audit Report No. 2714-538-Ch

Our review of 99 of about 60,000 participating PA and NPA cases, as regards to certification and issuance procedures during August 1974, showed about 20 percent contain various errors and/or lacked data necessary to assure the accuracy of the bonus amounts issued to the households. We found these errors to be caused by a lack of regular second party review and certification worker errors which pointed to a need for additional training and guidance. Similar conditions were found and reported during our prior audit number 2714-12-N.

Our reviews of 100 of 13,544 duplicate names and addresses in March 1974, showed about 14 percent of the sampled cases were actual duplications which resulted in an overissuance of bonus coupons. These conditions were, in part, due to the county office not using available data furnished by the computer, or requesting it, to preclude such conditions.

Our sample of 42 of 1,648 households that signed affidavits in July 1974 to receive duplicate ATP cards, revealed that in 25 instances, both the intial and duplicate cards had been redeemed. Of these 25 duplications, only two were known to the county, since the computer program did not provide for all duplications to be printed. Consequently, audit verified duplications of $2,701 went unresolved, with estimated unknown duplications totaling approximately $64,000 in March 1974.

Our visits to four issuance centers revealed that one center, Cleveland Trust, 10420 St. Clair Avenue, had over-issued $1,268 in food coupon books as of our visit on September 18, 1974. We further noted that overissuances for the past five months at this center amounted to $6,476, and underissuances of $11.

We found that two employees were claimed for USDA reimbursement purposes, even though they were not performing NPA certification functions or supervising such certifications. Consequently, for the period August 1973 through July 1974, the county overclaimed reimbursement by about $12,800.

Audit Reports of Food Stamp Program Departments

Orleans Parish Food Stamp Program
Certifying Activities
New Orleans, Louisiana
As of June 25, 1974
Report No. 2714-220-Te

Food stamp certifications for public assistance (PA) clients in Orleans Parish were inadequate to ensure that the program was being administered in accordance with established procedures. Our review of 489 PA case files disclosed 193 cases that could result in claim determinations (including 62 cases of possible fraud) and 75 cases where ATP mailing addresses were incorrect. In addition, we noted that 54 clients (48 PA and 6 NPA) were issued duplicate ATP's in January 1974, resulting in coupon overissuances of about $5,100. Many of these overissuances (23 overissuances of about $2,367) were attributable to administrative errors by PA caseworkers. We also noted indications of duplicate issuances to several clinets using the same social security number. In one of these cases, we found that the client was participating under different names as a PA and NPA food stamp recipient.

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Evaluation of Impact Due to Sudden Massive Participation
By Strikers (UMW Strike)
As of May 16, 1975
Audit Report No. 60246-1-Hy

This report presents the results of a survey of the Food Stamp Program (FSP) as related to a large increase in program participation resulting from a major labor strike. The survey pertained to participation in the FSP by United Mine Workers (UMW) who struck the coal industry November 12, 1974.

Our review disclosed a need to improve controls over emergency issuances with respect to strikers or other large emergency type of group participation. At the Federal, State and project level we noted that limited additional emphasis was placed on preparing for sudden large enrollments; policies and procedures implemented were not always consistent; and computer deadlines did not permit timely termination of program participation or redetermination of income. Also, sufficient personnel were often not available to verify applicants' eligibility, adequately determine and consider all available income, follow-up on or field investigate zero purchase cases or inconsistent information, redetermine income when necessary, and timely terminate participation. As a result, there is a potential for substantial bonus overissuances when there is a large sudden increase in enrollment.

Pennsylvania included striker participants on its regular computer runs and thus these cases were subject to the termination constraint which limited timely cut-off from subsequent months participation. For example, in Pennsylvania, the cut-off date by which eligible household could be discontinued was up to 10 days prior to the first of the subsequent month. Therefore, if the prescribed mass closing effective date, based on strike settlement and return to work, was after the cut-off date another months APTs would be issued. This situation has been previously reported in regards to emergency (striker) type and routine issuances and terminations by the Pennsylvania State Agency.

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With respect to zero purchase and zero income applicants, interviews were often of insufficient depth to establish how the family expected to operate under such limitations. Although bank verifications were utilized in some instances, officials said that many banks were not cooperative primarily due to the increased workload. Also, where bank accounts were not reported, bank verifications in the surrounding area were not undertaken and/or considered practical.

Work registration requirements were followed at the project offices visited. However, in Pennsylvania this requirement is of little value since the Employment Security offices do not attempt to locate employment in cases, such as strikers, where reemployment may occur at any time.

he Department of the TREASURY NEWS
ASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR IMMEDIATE RELEASE

October 20, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.0 billion of 13-week Treasury bills and for $3.1 billion of 26-week Treasury bills, both series to be issued on October 23, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 22, 1976			26-week bills maturing April 22, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.520	5.855%	6.04%	96.907	6.118%	6.42%
Low	98.512	5.887%	6.08%	96.872	6.187%	6.49%
Average	98.512	5.887%	6.08%	96.888	6.156%	6.46%

Tenders at the low price for the 13-week bills were allotted 88%.
Tenders at the low price for the 26-week bills were allotted 95%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 43,955,000	$ 29,680,000	$ 60,735,000	$ 16,735,000
New York	3,786,670,000	2,556,965,000	4,100,905,000	2,635,825,000
Philadelphia	36,685,000	35,535,000	36,110,000	11,110,000
Cleveland	66,325,000	45,625,000	94,915,000	14,915,000
Richmond	50,945,000	31,825,000	41,245,000	15,245,000
Atlanta	46,460,000	45,255,000	20,255,000	19,805,000
Chicago	336,115,000	68,115,000	259,115,000	113,965,000
St. Louis	57,885,000	33,575,000	40,595,000	29,565,000
Minneapolis	30,230,000	14,030,000	28,040,000	22,040,000
Kansas City	42,610,000	39,545,000	25,745,000	22,245,000
Dallas	45,355,000	25,255,000	25,795,000	15,395,000
San Francisco	315,040,000	77,460,000	336,870,000	183,370,000
TOTALS	$4,858,275,000	$3,002,865,000 a/	$5,070,325,000	$3,100,215,000 b/

a/ Includes $547,150,000 noncompetitive tenders from the public.
b/ Includes $227,555,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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he Department of the TREASURY NEWS
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CONTACT: Jack Mongoven
964-8191

FOR IMMEDIATE RELEASE

October 23, 1975

OIL REVENUE STUDY, GREENSPAN FORECAST ARE FEATURED IN OCTOBER ISSUE OF TREASURY PAPERS

Major constraints to the economic development of members of the Organization of Petroleum Exporting Countries (OPEC) lie in insufficient skilled manpower and managerial talent and, to a lesser extent, inadequate ports and transportation, according to a special report in the October issue of the Treasury Department's monthly publication, Treasury Papers.

The study, "The Absorptive Capacity of the OPEC Countries", analyzes, country by country, how revenues from oil sales can be used to finance imports, economic development and other internal OPEC needs. Treasury's Office of Middle East Affairs under Assistant Secretary Gerald L. Parsky made the study.

The issue of "absorptive" capacity has a bearing on future oil prices, the economic strategy followed by industrial nations which buy oil from OPEC, and how rapidly real resources are transferred from the industrial nations to the oil-rich but less-developed OPEC bloc.

Treasury Papers also contains an economic analysis by Chairman Alan Greenspan of the Council of Economic Advisers, who states that the economic recovery in the United States is probably even more robust than current data indicate.

In his survey, Greenspan said the recovery had been moving ahead better than expected earlier.

He added that it would be possible to sustain growth of the Gross National Product of roughly 7 per cent through mid-1976, with the rate then declining to somewhat lower levels by the end of 1977. This should enable the unemployment rate to fall gradually to the 7 to 7 1/2 per cent range by the end of next year and even lower in 1977, he added.

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The major factor that could throw recovery off the track, he warned, was a reemergence of inflation. "This is why moderate fiscal and monetary policies...are essential if we are to avoid re-igniting strong inflationary pressures," Greenspan stated.

A blueprint for sustained economic growth, also emphasizing stable and moderate policies, was outlined in another article by Treasury Secretary William E. Simon, who cautioned that any recovery plan, to be successful, must have the support and con fidence of the public.

Treasury Papers is a review of economic policy developments which is compiled from speeches, testimony, news materials and policy studies, and is available on request from Treasury's Office of Public Affairs, Room 2313, Main Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220.

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The Department of the TREASURY NEWS
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October 21, 1975
Contact Point: L.F.Potts
Extension 2951

FOR IMMEDIATE RELEASE

AMENDMENT OF ANTIDUMPING DETERMINATION
OF SALES AT LESS THAN FAIR VALUE
IN CERTAIN NON-POWERED
HAND TOOLS FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today the issuance of an amendment to the sales at less than fair value determination in the antidumping investigation of certain non-powered hand tools from Japan. The determination is amended to restrict its scope solely to punches, chisels, hammers and sledges (with or without handles), vises, c-clamps and battery terminal lifters.

The determination, published in the Federal Register of September 5, 1975, and the withholding of appraisement, published on June 5, 1975, are revoked insofar as they include merchandise other than that described above.

Notice of this action will be published in the Federal Register of October 22, 1975.

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October 21, 1975

STATEMENT OF JOHN A. BUSHNELL
DEPUTY ASSISTANT SECRETARY FOR DEVELOPING NATIONS
FINANCE, DEPARTMENT OF THE TREASURY
BEFORE THE WORKING GROUP ON THE FINANCING OF DEVELOPMENT OF
THE SOCIETY OF INTERNATIONAL DEVELOPMENT

I welcome this opportunity to exchange ideas with the Working Group on the Financing of Development of the Society for International Development in Washington. Today's subject -- developing country access to international capital markets -- is an area where many of you outside the U.S. Government have far more expertise than those of us in the government and thus I can learn more than I can say. International capital markets are basically private, but I believe governments -- both developed and developing -- could take some steps to enable private international capital markets to make an even greater contribution to development in the poor countries. In general, these steps would require the governments of developing countries and some developed countries to get out of the way and let the private markets function freely, not to impose new governmental restrictions, directives or even incentives.

In recent years, private capital flows have played a steadily expanding role in financing the development efforts of many poorer nations. In 1974, private capital flows from DAC countries, including direct investment, were greater than the total amount of Official Development Assistance. Net private capital flows amounted to $12 billion, compared to $11 billion of Official Development Assistance. The World Bank estimates that by 1980 private capital flows will exceed official flows by about $10 billion. These figures suggest the critical importance of private capital in the development process.

Private capital flows are heavily concentrated on the development successes. It is the countries with proven successful policies resulting in rapid domestic growth and rapidly expanding exports that attract private capital because it is in these countries that potential profits and the assurance of debt service are highest. Governments have

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sometimes talked about concentrating their assistance flows on those countries that use it most efficiently; private capital markets have so concentrated their flows to developing countries.

Besides direct investment, capital flows to the developing nations have taken the form of bond issues in both national and international markets and, more prominently, bank credits ranging from short-term bankers' acceptances to medium-term syndicated loans. An additional major source of private financing I should mention, although it is not included in the figures cited above, is suppliers' credit. The net expansion of suppliers' credit to developing countries this year may total almost as much as Official Development Assistance or bank and portfolio private flows.

Bond issues today represent a limited source of private capital for developing nations. In 1974, public and private placements of bond issues in national and international markets totaled only $145 million for non-oil developing countries. In contrast, bank lending, particularly in the Euro-currency market, is of critical importance to developing countries. In 1974, Euro-credits to the non-oil developing nations totaled nearly $9 billion. While bond issues by the developing countries have increased in 1975, amounting to $146 million in the second quarter of this year, bank lending continues to be the principal source of funds for the developing nations.

This minor role for bonds has not always been the case. Bonds were once the principal source of capital for developing nations. In the 19th and early 20th centuries, bond issues provided such countries as the U.S., Argentina and Australia with the funds to create the infrastructure necessary for development. Many railway systems, for example, came into existence through funds obtained in former bond markets. Foreign public bond issues in the United States averaged about $1 billion per year in the 1920's, while the average rate of total foreign issues in the period 1946-65 was about $700 million per year. As U.S. prices doubled from the 1920's to the 1960's, the reduction in foreign issues has been even sharper in real terms. Furthermore, Canada accounted for most of the issues in the 1960's.

Efforts to improve developing country access to private capital markets must clearly distinguish between the bank and bond markets.

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One important method of increasing bank lending is to increase the number of banks involved in the lending process. At present, the principal bank lenders to the developing nations are the largest U.S. banks, predominantly located in New York, Chicago and San Francisco. Attempts might be made to bring smaller U.S. banks into the international pattern of capital flows and tap their large resources for the capital needed by the developing countries.

One way to expand the role of U.S. banks which do not operate significantly in international markets via lending to developing countries is co-financing and parallel financing arrangements between commercial banks and the International Financial Institutions -- the World Bank and the regional development banks such as the Inter-American Bank. Under such borrowing arrangements, commercial bank loans would be integrated with the project loans of the International Financial Institutions, thus joining public and private capital in financing developing nation projects.

Because the development banks have already analyzed the project and the country situation, the smaller U.S. bank does not have to spend much on project analysis. Thus even small investments are possible because the commercial bank in effect piggy-backs on the analysis of the development bank. Costs for the development bank are not increased because it would do the analysis anyway. Various arrangements are also possible to improve repayment security for the commercial lender without encumbering the scarce capital of the development bank.

The World Bank is examining various forms of optional cross default clauses; under such arrangements a default on the commercial loan to a joint project could be treated as a default on the development bank loan. Such a provision provides a much greater measure of security for the commercial lender who does not have established relationships with the borrowing country. Some co-financing arrangements provide that the development bank act as the collection agency for the commercial lenders, receiving one payment and dividing it among the many commercial lenders. Such arrangements are particularly appropriate where an operation is divided among many smaller banks or other lenders. However, it has the disadvantage that the lending institution does not gain the experience of dealing directly with the borrower in the developing country and thus does not develop the sort of link which might lead later to direct lending without a development bank intermediary.

From the viewpoint of the developing nations, co-financing increases the capital flows necessary for development by supplementing the financial resources of the World Bank and the regional banks. As the capital of these banks is limited, it is particularly important to expand their development impact through such arrangements given the needs of the developing countries, especially the middle-level developing countries where development success makes rapid advance to developed status feasible but immensely expensive. Moreover, the development banks can perform an important extra function by introducing many financial institutions in developed countries -- and not just in the United States -- to lending to developing countries. Banks without major international operations are among the main candidates. Such banks are important not only for investments on their own account, but also because of investments from their trust departments. The development banks might also take on the even harder task of introducing insurance companies and pension funds to long-term lending to developing countries through co-financing arrangements. We are just at the beginning of exploring the possibilities in this field and I hope this will become a major added dimension in the work of the development banks.

At a meeting of the Governors of the Inter-American Development Bank in May of this year, Secretary Simon called co-financing "a significant initial step in assisting . . . countries to establish substantive financial relations for further access to international capital markets". We believe that co-financing will offer commercial banks the opportunity to establish new lending relationships with the developing nations while assisting their development efforts. We are happy to note that the Inter-American Development Bank has just completed co-financing arrangements with commercial banks for a steel project in Argentina. This operation broke new ground because the interest rate on the commercial portion is a variable rate set in relation to the London inter-bank rate. We encourage this type of imagination in identifying opportunities and ways to expand the development banks and their development impact.

Turning now to the second aspect of developing country access to private capital -- the bond market -- the Development Committee associated with the IBRD and IMF is currently analyzing constraints on the floating of bond issues by developing countries in various capital markets. Initial results are expected in early 1976.

A more important constraint on the volume of bonds floated by the developing nations may be the conservative nature of the principal investors -- insurance companies, pension funds, and other similar institutions. Such institutions are extremely adverse to unknown risks, in part reflecting the legal responsibility of the salaried investment manager for his investment decisions.

The developing countries themselves may have to do more to build their reputation for on-time servicing of debt before the bond market can be approached effectively for large amounts of funds. Only the most sophisticated investors fully appreciate the growing differences in the economic situation and prospects of various developing countries. Every headline that reports that the economic situation of developing countries in general is difficult, every request of one or a group of developing countries for debt rescheduling, every change in government with uncertainties on servicing some or all debt weakens the reception among the investment community for bonds of any developing country.

Developing countries will have to adopt a long-run strategy to benefit fully from the potential of the bond market. In 1972 and 1973 there were several developing countries that might have been able to float long-term bonds. However, these countries found they could easily get all the funds they wanted to borrow from commercial banks -- and at somewhat lower interest rates than would have been required for the long-term money available in the bond market. Now some of those same countries would very much like to float some long-term bonds, but neither their financial statements nor the conditions of the bond market are as advantageous as they were a few years ago. Had they entered the market when conditions were favorable, I believe follow-on issues might well be possible now because they would be known in the market.

Finally, I would like to comment on interest rates. There is a tendency to compare the face interest rate on bond issues with the face rate on commercial bank lending. This is an erroneous comparison. The bond holder gets his interest, nothing more. The commercial bank often gets substantial related business, sometimes including the holding of deposits in the bank. Moreover, bonds are generally considerably longer term than bank loans, especially when the various callable features in many bank loan contracts are considered. However, borrowing at high face rates -- even if actual costs are less than other forms of borrowing -- may create a political problem in a developing country. With today's inflation rates, bond issues at 12 or 13 percent appear to me to be fairly cheap

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money for LDCs, and in fact cheaper than some of the funds they are now borrowing. But many developing countries would find it unacceptable to be seen to pay such a rate. A similar problem is the concern of developing countries that any bond issue have a triple or double A rating. It is my hope that the Working Group of the Development Committee will lead to greater understanding on all these issues.

A further method of increasing private financial flows to the developing nations is the U.S. proposal to establish an International Investment Trust as a "mutual fund" to provide investors with a diversified group of investments in the developing nations. The Trust could be managed by the International Finance Corporation and would invest in loans and equities of private sector financial institutions and mixed enterprises in the developing countries.

Investors in the Trust might be governments or other public and private entities, including individuals, that would perceive a good investment opportunity. Preliminary soundings indicate that several oil-exporting states as well as U.S. security dealers are interested in the plan.

In order to increase investor confidence in such an investment trust during its initial period of operation, a $200 million first loss reserve has been suggested. The reserve would be a contingency liability fund which would limit investor exposure to major losses until such time as the trust has a substantial diversified portfolio and has accumulated its own loss reserve from its income.

The idea of an international trust is to tap new financial resources which are not now available to assist development in the poorer countries. The trust could play an important role in expanding the flow of capital to the private enterprises of the developing nations. It is generally assumed that capital is the short resource in developing countries. If the market is allowed to work, the return on capital should therefore be higher in developing countries than in more mature economies. Capital will move in response to financial incentives unless investors believe greater risks in the developing countries offset the higher financial return. However, such capital movement may not occur if the institutions to move the funds are not developed. For example, an individual investor might believe that his return would be higher in a mutual trust investing in developing countries than one investing in developed countries.

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But as no such developing country mutual fund exists, he may be investing in the developed country. Essentially our proposal is that the IFC as the most experienced investment bank dealing with developing countries in all parts of the world initiate and manage such a mutual fund -- or perhaps I should say family of mutual funds as there might be separate funds for equity and fixed interest investments.

In conclusion, private capital flows are making an immense contribution to the efforts of the developing nations to improve their growth prospects and the well-being of their people. The study of these flows in order to improve the access of the developing countries to the world's private capital markets is only at initial stages. I would hope the private sector, especially the academic community and the business community, would also give increased attention to private capital flows to developing countries. There is an open market for good ideas in this field. I hope the Society for International Development will give at least as much attention to the private as to the public side of capital flows to developing countries.

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10/20/75

UNITED STATES DEPARTMENT OF THE TREASURY

OFFICE OF THE SECRETARY

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Room 4121 Treasury Building
15th and Pennsylvania Ave. N.W.
Washington, D.C.

MONDAY, October 20, 1975

PRESS BRIEFING
by
DAVID R. MACDONALD

ASSISTANT SECRETARY
for
ENFORCEMENT OPERATIONS AND TARIFF AFFAIRS

PARTICIPANTS:

RICHARD B. SELF,
Acting Director,
Office of Tariff Affairs

and

MEMBERS OF THE PRESS

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SECRETARY MACDONALD: Good morning. My name is David Macdonald. I am Assistant Secretary for Enforcement Operations and Tariff Affairs for the Treasury Department.

To my left is Dick Self, who is Acting Director of the Office of Tariff Affairs.

We are announcing today -- as you can see -- that we have rejected the petitions of the U.S. Steel Corporation which alleged that the remission of the value-added tax on exports by seven E.C. Countries constitutes a "bounty" or "grant" within the meaning of the Countervailing Duty Law.

Before I go any further, I think it might be good for those of you, who are not immersed in this subject every day, to just quickly review three terms:

Direct taxes;

Indirect taxes; and

Value-added tax.

The value-added tax can probably be most closely analogized to our State sales taxes. It is an excise tax on a sales transaction but, unlike our State sales taxes -- almost all of which to my knowledge are assessed only on the <u>final</u> sales transaction to the <u>consumer</u> -- the value-added tax is assessed at <u>every</u> stage of transfer. So that, if a manufacturer purchases raw materials, he pays a tax to his supplier. He then turns these raw materials into a semi-finished product and transfers it then to, let's say, another manufacturer. He will then collect from the next stage in the distribution line, a value added tax, taking credit for the prior tax that he has paid, and so on up the line -- each stage collecting the tax until, finally, when the final product is sold to the Consumer, the tax is collected by the seller and remitted to the Government.

This tax is, upon exports, not collected; and this is the sense of the U.S. Steel petition:-- that the distinction between collecting it for Domestic sales and not collecting it for International sales, in effect, conveys a subsidy on exports.

That is the value-added tax.

There is a distinction, in this area, that has been adopted and maintained by the Treasury Department, and that is reflected in the GATT--in our General Agreement on Tariff and Trade--between "direct" taxes and "indirect" taxes.

Direct taxes are those taxes which, theoretically, are imposed directly upon the tax-paying entity, such as an income tax, or Labor/related type taxes like the FICA.

Things like that.

Indirect taxes are assessed on the transaction, such as a sales tax or a commodity excise tax, so that the transaction itself gives rise to the tax.

Now, the GATT provides that the remission of indirect taxes, under certain circumstances -- such as occurs here in the value-added tax situation -- does not result; it is not to be deemed a subsidy; whereas the remission of direct taxes -- that is to say, if we were to forgive corporate income tax, depending upon its exports -- then that would, indeed, be deemed to be a subsidy.

The Treasury Department has consistently followed this distinction and has, in the past, countervailed against the remission of direct taxes.

Okay! Having made that distinction, I just want to make this additional point: The fact that we have not found the remission of value-added taxes to be a bounty or grant within the meaning of our law, does not mean that the United States Government is wild about other taxes of this sort. In fact, if there was one thing that was quite persuasive in the petition filed by U.S. Steel, it was their economic argument that, in fact, there should be no distinction between direct and indirect taxes.

We believe that, while we are making this decision in consonance with our prior precedents -- we believe that this is a subject which requires very serious negotiations because the distinction between so-called "direct" taxes and so-called "indirect" taxes, economically speaking, may well be chimerical.

Okay. Any questions?

MEMBER OF THE PRESS: What about Court actions of

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U.S. Steel, which are possible?

I understand that there are two Court decisions -- of 1903 and 1907.

SECRETARY MACDONALD: Yes, there are two; correct.

There are two ancient Supreme Court cases -- Nicholas and [illegible] -- in which the Supreme Court stated -- this is going back to, I believe, the first and second decades of the 20th Century, in which the Supreme Court stated that the remission of indirect taxes on Russian sugar and on some other product that I cannot think of right now, did, indeed, constitute a bounty or grant.

If the same question were raised before the Supreme Court, today, it is our opinion -- and this is why we decided the case the way we did -- that the Supreme Court would decide the other way, in the light of all of the history and the economic changes that have gone on, up to this time, in a long period of, in essence, acquiescence in the Treasury Department's method of handling this.

Also, I won't go into the question of whether those Supreme Court cases were holdings, or dicta. There is some question as to whether those statements were holdings, or dicta.

MEMBER OF THE PRESS: What is a "dicta"?

SECRETARY MACDONALD: Well, a "holding" is -- You say something that is essential to your decision.

_____ . . . may go on, in your opinion: "By the way,

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this, also, would be true."

You see what I mean?

That is a dicta, and it is entitled to less weight--under Anglo-American jurisprudence.

MEMBER OF THE PRESS: Is U.S. Steel going to appeal your decision?

If so, which Court would it go into?

SECRETARY MACDONALD: It would go into the Customs' Court.

In answer to your first question: I don't know, but it would not surprise me.

MEMBER OF THE PRESS: Why did Treasury wait so many years to make this decision rather quickly, since they had only gotten the petition a month or so ago; when there is a petition pending since 1968?

SECRETARY MACDONALD: Well, the petition in 1968 was about to be acted upon by the Treasury Department when it was withdrawn.

MEMBER OF THE PRESS: Why did it wait so many years? Six or seven years?

SECRETARY MACDONALD: Why did it wait so many years? You have to ask the people who were around the Treasury Department at that time--why they waited so many years. I don't know.

Needless to say, when you have a petition like that pending -- we have been addressing ourselves to this issue for a long time -- there is also another aspect to this.

This is not, in our view, an entirely novel question. We have had similar questions presented to us not as, perhaps, broadly presented to us as presented in the U.S. Steel case; but we have taken a consistent position in at least three or four cases that I am aware of, since I have been Assistant Secretary.

MEMBER OF THE PRESS: After doing this, are you going to make any suggestions to Ambassador Dent on the upcoming negotiations concerning indirect or direct taxes?

SECRETARY MACDONALD: Yes. Ambassador Dent is well aware of this problem, and we participate, internally with him, on questions of where the United States should be going -- from a policy standpoint.

MEMBER OF THE PRESS: Is the Treasury now tinkering with changing the direct and indirect, and considering it as one?

SECRETARY MACDONALD: I think it is fair to say that the United States Government is in favor of changing it.

MEMBER OF THE PRESS: Did the petition that U.S. Steel filed contain any other export subsidy allegations -- other than the value-added tax -- such as low interest loans or special loans, or government payments?

SECRETARY MACDONALD: No. It did not.

MEMBER OF THE PRESS: Would you confirm reports that you disclosed this decision last week to the European Government?

SECRETARY MACDONALD: Yes. That is confirmed.

We also disclosed it to U.S. Steel.

MEMBER OF THE PRESS: Why did you disclose it to the Company and to the Countries without disclosing it publicly, first?

SECRETARY MACDONALD: Well, we felt that we ought to let them know just before we disclosed it to the Public -- to see if they had any last minute arguments that we had not dealt with -- you know, had not thought of.

MEMBER OF THE PRESS: Because U.S. Steel is a publicly owned company, would this not cause problems, perhaps, with "insider information"?

SECRETARY MACDONALD: I had not even thought of that!

I had not even thought of that.

MEMBER OF THE PRESS: It doesn't look like the stock waivered much during the week, but it seems to me that there is a question there.

SECRETARY MACDONALD: You may be right!

MEMBER OF THE PRESS: Does this decision bear in any way -- or set any precedent that could relate to the other countervailing decisions which we still have yet to decide upon?

SECRETARY MACDONALD: There are, undoubtedly, other countervailing decisions pending before us which either allege--or might allege--the remission of indirect taxes as a bounty or grant. It is a universal practice, and one in which this Country engages, also!

Our New York State sales tax -- or, at least, I know the Illinois State sales tax is remitted on the export of products from Illinois.

I believe, also, excise taxes that we have on alcohol beverages are remitted on exports. They are not assessed by this Country. This is not an uncommon practice.

MEMBER OF THE PRESS: The point I am getting to is this: If it is so usual to take this position on a direct tax, then why has U.S. Steel made an issue of the whole thing over again, this time?

SECRETARY MACDONALD: Well, I think that they felt -- I cannot speak for them and perhaps I should not -- but I can only say generally, that whenever you feel that a practice does not comport with the law, there is certainly nothing wrong with urging a different result in the face of all of the precedents that are facing you.

In 1858, Abraham Lincoln was criticized soundly for rejecting the Dred Scott decision. He was appealing, presumably, to the wisdom of future generations to correct that decision.

MEMBER OF THE PRESS: The point that I am trying to get to is this.

Isn't it a fact, under the reason why they did it, it is because of the new safeguards provided in the Trade Bill -- the Trade Act?

I am wondering whether your decision in this case coupled with the remarks which Ambassador Dent made in Hot Springs in a Business Council last week, don't really mean that the Administration is conspiring to mitigate those events as far as it can in the forum of the M.T.N.?

SECRETARY MACDONALD: Mitigate what events?

MEMBER OF THE PRESS: To mitigate the new rights to protection, as they are given in the Trade Bill.

SECRETARY MACDONALD: No. I would deny that! I think that it is pretty obvious that that is <u>not</u> <u>true</u>!

I am sorry I cannot present you with intrigue personality conflict, cover-up, scandal, etc., but I am afraid that you will find--in this particular case--that it is a question of your Government operating as best it can to apply law that it finds--having had it handed down to it by the legislative authority--in the interest of the common weal.

I realize that it does not make good writing, but I think that is the case.

MEMBER OF THE PRESS: It remains a fact, surely, still, that demands for protection are running at record level----

SECRETARY MACDONALD: I can't agree with that statement at all! <u>What?</u>

MEMBER OF THE PRESS:--following the passage of that Bill.

SECRETARY MACDONALD: It depends on how you define "protection".

Well, I don't find, myself, that the demand to be free of subsidized competition, or price-discriminatory competition, is equivalent to a demand for protection.

Protection, to me, is something other than that--but there is no inconsistency between Fair Trade and Free Trade.

MEMBER OF THE PRESS: Had you found the other way in this case, did you have indications from the EEC Countries on what their reactions might be--in terms of trade barriers?

SECRETARY MACDONALD: Well, we had the usual presentations. Is this what you are saying? The usual presentations made to us through all sources, advising us of all sorts of consequences?

Yes, we have had the usual situation there.

Once again, we just try to decide the cases as we see them.

MEMBER OF THE PRESS: Dave, with this particular case out of the way--at least temporarily-- there have been recurring reports that a whole bunch of Steel Dumping Cases are going to land on you again.

Can you tell us about that?

SECRETARY MACDONALD: I cannot really give you anything--authoratively. I have not heard anything first-hand.

MEMBER OF THE PRESS: You don't have a Steel Dumping Case now?

SECRETARY MACDONALD: No, we do not.

MEMBER OF THE PRESS: Is this the first instance of Treasury ruling, precisely, on the European value added tax?

SECRETARY MACDONALD: As far as I am aware, it is. Yes!

MEMBER OF THE PRESS: Would you say there are similar decisions on indirect taxes over the years?

SECRETARY MACDONALD: Right!

MEMBER OF THE PRESS: Could you give us an example?

SECRETARY MACDONALD: "Mexican Steel"-- which is a preliminary decision. It has not been finalized yet-- but it gave plenty of warning for this result.

This is also another refutation--I think, Jeff-- to your point.

Japanese Electronic Products: The Japanese have a commodity excise tax that was alleged to be a bounty or grant when remitted. It was determined that it was not. That, also, is a preliminary decision. Isn't it?

MR. SHEF: Yes, it is.

There are two Spanish [illegible] a year ago; they are also [illegible]. We only countervailed the over-rebated [illegible] internal tax which is an indirect tax. In effect, we ruled that --

SECRETARY MACDONALD: -- that the regular rebate-- the "non-over" rebate--is not a bounty or grant.

Those two cases were "Spanish Footwear" and "Bottled Olives".

MEMBER OF THE PRESS: Are there any Court cases-- since the early 20th Century--that go into this question of indirect taxes?

MR. SELF: Yes. The <u>American Express versus the United States</u> (case) which involved our countervail against remission under Italian Law 639. We countervailed Steel Products under that law, and the American Express took us to Court on that, and the Court of Customs and Patent Appeals ruled, in effect, in the Treasury's favor.

SECRETARY MACDONALD: I was going to say, "on other grounds"--

MR. SELF: "On other grounds"--

SECRETARY MACDONALD: They did not reach that issue.

MR. SELF: But it does cross the Indirect Tax Issue to a certain extent.

MEMBER OF THE PRESS: So, if U.S. Steel decided to go to Court, this would really be, perhaps, the first case since the early 20th Century, where the Indirect Tax question has come into play?

SECRETARY MACDONALD: Except that the Customs Court, itself, in that same case -- American Express -- addressed itself to the issue.

MEMBER OF THE PRESS: Are there other Countries that are outside of the EEC that use value-added taxes?

SECRETARY MACDONALD: I believe so.

MEMBER OF THE PRESS: Can you tell me which?

MR. SELF: Brazil does.

MEMBER OF THE PRESS: Brazil?

MR. SELF: Yes.

Practically all European Countries have a value-added tax.

Australia has it.

MEMBER OF THE PRESS: It is widely used, isn't it?

MR. SELF: Spain has a "turn-over" tax.

Scandinavian Countries have value-added taxes.

MEMBER OF THE PRESS: Do you feel a sense of irony at all -- that you are rejecting the U.S. Steel petition, yet you agree somewhat with the concept; with the --

SECRETARY MACDONALD: With the economic argument that was made?

MEMBER OF THE PRESS: Yes.

SECRETARY MACDONALD: No. I don't feel any irony in that at all! We just try to follow the Law.

MEMBER OF THE PRESS: Where, and how, Dave, are we going to get the negotiations on this question within GATT--in view of the problems that are already raised?

SECRETARY MACDONALD: I am really not sure, Jack! I think that is a question that might better be addressed to Ambassador Dent.

MEMBER OF THE PRESS: In your talks last week with officials of other Countries, did the Auto Dumping situation arise?

Is there anything new on that?

SECRETARY MACDONALD: There is nothing new on it.

Obviously they, again, brought it up to us. And we obviously, again told them that this was an investigation in which our discretion was, really; nil!

We just had to make the finding as to a particular fact which is the question of whether there are sales at less than fair value?

MEMBER OF THE PRESS: How does the clock run on that one?

When is your next deadline?

SECRETARY MACDONALD: February 7 is the deadline -- unless we extend it by reason of its being a complex case.

MEMBER OF THE PRESS: That is to make a decision whether there are, or are not sales at less than fair value?

SECRETARY MACDONALD: Correct!

MEMBER OF THE PRESS: You have not held appraisement?

SECRETARY MACDONALD: No, we have not.

MEMBER OF THE PRESS: If there is an extension, it will be for three months. Is that right?

SECRETARY MACDONALD: Maximum!

MEMBER OF THE PRESS: Would you expect that this would be extended?

SECRETARY MACDONALD: I think it is really too early ---

MEMBER OF THE PRESS: Is that a decision you make -- to extend it?

SECRETARY MACDONALD: Yes.

MEMBER OF THE PRESS: Or would the EC have to ask for the extension?

SECRETARY MACDONALD: No! We can make that three-month extension ourselves.

There is another three-month extension -- not the EC. The Automobile Manufacturers are parties in interest in the dumping case; and they could request a further extension of three months in order to have a Confrontation [illegible].

MEMBER OF THE PRESS: So it Could be, all in all, a maximum of 12 months? Six, plus three, plus --

SECRETARY MACDONALD: Yes. By the time the referral is actually made -- over to the International Trade Commission.

MEMBER OF THE PRESS: You can't get a body election through the I.T.C.?

SECRETARY MACDONALD: You think about the things that never dawn on me!

MEMBER OF THE PRESS: Did you see the decision-- by the Volkswagen Company--to change the prices of the Beetles, or, at least curtail the lower priced ones, as a reaction to the investigation?

SECRETARY MACDONALD: I am not even aware of the factual basis of your question, so I really cannot answer the question.

MEMBER OF THE PRESS: Could I just ask you: In your press release, it is customary form to say that U.S. Steel has not given enough information and allegations and so on? But you are not really saying that!

SECRETARY MACDONALD: We are not saying that at all! Don't misunderstand. Otherwise, we would have opened an investigation.

MEMBER OF THE PRESS: Your second paragraph in the press release says: "Mr. Macdonald said that the action he was announcing means that the Department has concluded that the information and allegations contained in the U.S. Steel petitions do not on their face describe a bounty or grant and are therefore insufficient to warrant initiation of formal investigations.

SECRETARY MACDONALD: Correct.

MEMBER OF THE PRESS: In effect, what you are saying is much stronger than that! You are saying it is not a bounty or grant -- not that it is information that U.S. Steel has provided.

SECRETARY MACDONALD: Yes. Okay! Maybe that does require a little --

MEMBER OF THE PRESS: Your decision is much broader.

SECRETARY MACDONALD: I stick with that statement.

MEMBER OF THE PRESS: It has much broader implications.

SECRETARY MACDONALD: That statement has those broad "implications".

MEMBER OF THE PRESS: I see.

SECRETARY MACDONALD: We are saying what you just said. We are saying that the facts, as far as we can see, are undisputed. We don't need to open an investigation in order to find out new facts. Everybody knows what the facts are! Having had this grounding of facts that everybody agrees upon, we are making a legal determination.

MEMBER OF THE PRESS: That's right.

SECRETARY MACDONALD: That is really what we are saying. That is what that was intended to say.

MEMBER OF THE PRESS: What was the reaction of the Common Market people when they were informed of this decision?

SECRETARY MACDONALD: Relief!

(Laughter)

MEMBER OF THE PRESS: Did they give you any threats?

SECRETARY MACDONALD: There is constant pressure--always--coming in from all sides. You just have to get used to a certain noise level when you are in this particular job.

MEMBER OF THE PRESS: Did you have Secret Service protection?

(Laughter)

MEMBER OF THE PRESS: Thank you, Mr. Secretary.

(Whereupon, the press briefing was concluded.)

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FOR RELEASE ON DELIVERY

Statement of the Honorable William E. Simon
Secretary of the Treasury
Before The
Senate Committee on Foreign Relations
Washington, D.C., October 22, 1975, 10:00 A.M.

Mr. Chairman and Members of the Committee:

You have requested, Mr. Chairman, that these hearings cover the broad range of challenges likely to be encountered in the conduct of U.S. foreign policy during the remaining years of this decade and into the 1980's. I welcome this opportunity to step back for awhile from the day-to-day pressures, and to join with this Committee in a longer-run look at our international relations. The United States faces serious challenges in foreign policy, including inextricably related challenges in the area of international economic policy, to which I will address my attention today.

The abrupt economic changes of the past several years give us all grounds for caution in stating what the challenges of the next decade will be. Nevertheless, I believe this is a useful -- indeed necessary -- exercise, in order that some future problems may be anticipated and that we may be placed somewhat less in the position of reacting to crisis events.

The United States must have, and does have, an international economic policy. No nation is more intimately involved in shaping a cooperative international economic order. But we must not confuse policy with technical arrangements and procedural mechanisms which are only the instruments of policy. The core of our international economic policy is dedication to certain fundamental principles, the most important of which is our commitment to a liberal, cooperative and open order for world trade and investment. Let me further preface my remarks by reminding you of those principles:

-- to support the liberalization of world trade and investment;

-- to avoid beggar-thy-neighbor policies;

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-- to maintain a strong U.S. economy and a sound U.S. dollar; this is a prerequisite.

-- to assist the developing world to grow and become economically self-sufficient;

-- to respond promptly and effectively to structural changes in the world economy, such as the changed energy balance;

-- to participate responsibly with other nations in ensuring that international economic arrangements evolve to meet changing conditions.

Following these principles, the United States has worked with other nations to develop viable and realistic solutions to the very serious problems we face. There has not been a great sounding of trumpets, but there has been quiet, meaningful progress. And it is by adherence to the principles which have served us so well that we should approach the major economic challenges that lie ahead.

Broadly speaking, I see them as threefold:

-- to define and follow a path of durable non-inflationary growth for the world economy;

-- to maximize the benefits to be derived from the world's natural resources; and

-- to find effective means of working with developing nations in support of their development aspirations.

Non-inflationary Growth

The most enduring challenge to the Free World economy is to find and follow the path toward sustainable non-inflationary growth. The greatest responsibility of the United States to a healthy world economy is to restore sound economic policies at home to promote non-inflationary growth and to ensure durable prosperity. In meeting this challenge, we not only provide an environment in which the aspirations of our own people can be fulfilled equitably, but we will enable the U.S. economy to provide a sound foundation for economic progress and stability in other countries.

As we each develop our own policies and programs, we must keep in mind that we live in an interdependent world, where the actions of each country bear upon the

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welfare of others. It is of particular importance in such a world that we continue to progress toward a more open and liberal world economy. Continued movement toward greater reduction of barriers to trade and investment offers not only the prospect that international transactions will serve as an engine of growth but also assistance in dealing with inflation, for a more efficient world economy will be a less inflationary one. It will not be enough merely to resist protectionist pressures at a time of economic stress; we must also push ahead with our efforts to liberalize existing restrictions. In this connection, the Multilateral Trade Negotiations are of particular importance, both symbolically and practically.

The stance of the United States in this area is crucial. This country stands as an outspoken and vigorous advocate of a free and open international trading community, and our voice carries a special weight. Whether we continue to demonstrate leadership will affect not only our own prosperity but even more importantly the shape of the world in which we live.

We need also to learn better how to live in interdependent world -- how to balance economic interdependence and national independence. All nations are linked together economically. When our policies are mutually supportive we are all much better off. When they are mutually incompatible we all suffer. Yet we are not ready for one world politically and we may never be. We wish to retain our sovereignty. For example, although monetary policy in the U.S. affects the economies of the European countries, and vice versa, neither they nor we can allow our domestic monetary policies to be determined by the other.

Recognition of interdependence of nations, and of the problems that are faced in common, has resulted in the development of an extensive framework of international economic and financial cooperation, in the International Monetary Fund, the Organization for Economic Cooperation and Development, and in other forums. It has not been a matter of "coordinating" policies, in the sense of ensuring that all countries follow identical policies. Our customs, traditions and institutions vary, and economic conditions also vary. But the basis for close and fruitful cooperation among nations exists. The U.S. is an active participant in this extensive international network of economic cooperation and we will continue to assure that our cooperative efforts are adapted to meet new and changing problems as they emerge.

The Financial Support Fund recently negotiated among the members of the Organization for Economic Cooperation and Development, and now before the Congress for its approval, represents an important advance in the sphere of international cooperation. Designed to assist in dealing with current external financing problems, this temporary Fund constitutes a major element in the response of the developed oil importing countries to one of our most pressing problems.

Our efforts to restore a healthy and vibrant world economy have been, and I believe will continue to be, helped by more flexible exchange rate practices. Had the world attempted to maintain par values in the face of the dramatic upheavals of the last two years, we would have had chaos, crisis, trade and capital controls and a far more severe world inflation. In a period of wrenching and unpredictable change, the world has been spared the massive speculation and recurrent crisis so typical of the par value era. And, with more flexible exchange rate practices, world trade has held up remarkably well in a dangerous period of recession. With few exceptions, restrictions on trade have been avoided. And nations have been subject to a more immediate and direct "discipline" than before, in that they have been compelled to face rather quickly the external consequences of any unsound domestic policies.

We have all been able to see evidence in recent years of less stable conditions in our international economy than we would have liked. More stable conditions, however, are not the product of any exchange rate regime: they depend upon underlying economic forces. Thus, whatever the exchange rate regime nations choose, we will have the stability we all seek only when we control the inflation none of us wants.

<u>Maximizing the Benefits to be Derived from the World's Natural Resources</u>

At a time when the difficulties of achieving stable growth have increased, a high premium must be attached to the most efficient use of the world's natural resources.

Our consciousness of the limits on the world's supply of natural resources has been considerably raised in recent years. As a result, we have begun to devote greater attention to the problems of utilizing these resources in the most effective possible manner; and in the decade ahead we must intensify our efforts in this direction.

The challenges are twofold: The first is to assure a stable supply of natural resources at reasonable prices, so that these resources are utilized most efficiently in the production process. The second is to draw upon those resources in the most efficient manner.

As these questions have become public issues, all too often the headlines are dominated by two schools of thought:

-- The chronic pessimists who argue that we are running out of raw materials and are at the mercy of current producers. They would have us cut back on our standard of living and reconcile ourselves to paying the economic and political prices demanded by producers.

-- Those who believe that there should be a prompt government solution to every problem. They would create a complex system of indexed prices, commodity agreements, government trading companies and government run or controlled corporations to produce raw materials.

The trouble with these schools of thought is that they are based on a static conception of the world, not recognizing that we live in a dynamic world. This is particularly true in the case of raw materials. As technology changes rapidly, and real incomes rise, new demands are created for some materials, while others are no longer needed in the same quantities.

The pessimists have a point. But it is not that we are in danger of running out of raw materials in a physical sense. Rather it is that the poor investment climate in many less developed countries, particularly in extractive industries, has meant investment has often gone to developed countries even though the potential for production was lower than LDC alternatives. We must work toward finding means to insure that capital can be invested where it can be most efficiently used.

In this respect, a few developing countries do an immense amount of harm to development in all developing countries by disrupting the investment climate through expropriations and similar actions. The developing countries need the capital, technology and management which is available only from private firms in developed countries. Some developing countries believe that capital and technology available through foreign aid and from the international development banks can substitute for such private investment. This is not the case. In fact, bilateral and multilateral public assistance should not be used to compensate for a country's unwillingness to

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establish an investment climate to take advantage of the resources that will flow through the private market if the climate is conducive to such flows. Some developing countries seem to feel that our firms are so eager to invest in their countries that they will invest regardless of the actions these countries take against existing investment, or regardless of the resolutions these countries push through international organizations such as the UN. I can tell you that this is not so. The losers from such action are the people of the developing countries who are denied the jobs, higher national incomes, and more rapid overall economic development that comes with private investment.

The interventionist school is attuned to an economically and technologically stagnant world. Indexation schemes attempt to freeze price relationships, which quickly leads to the necessity of controlling production and even substitutes. The producer becomes more and more detached from real market forces, and thus becomes dependent for his welfare on the artificial system which controls the indexation scheme, rather than on the consumer of his product. In some cases, commodity agreements can have salutary effects such as moderating price swings and assuring adequate supplies of a raw material over time, but we need to examine closely such possibilities on a case-by-case basis. The objective of commodity agreements should be to combat excessive price instability, not an increase in the level of prices. Otherwise, such agreements risk interfering with long-term price trends and incentives, hindering the entrance to the market of new and more efficient producers, and stimulating alternative sources of production elsewhere.

The challenge for us in the years ahead is to find ways to maintain and improve the basic market mechanisms while alleviating any adverse side effects. In a dynamic world with shifting technologies, demand, and relative efficiencies, sources and volume of demand and supply will shift. This is as it should be. These shifts, however, can have human costs as adjustments are necessary. What we need to do is to find ways of alleviating the human costs of the adjustment process, rather than place obstacles in the way of change.

There has been no more critical deviation from reliance on the market mechanism than in the field of petroleum. There, market manipulation by the OPEC countries has served to increase artificially the price of oil far in excess of its costs of production or relative scarcity. As a result, oil importing nations have been forced to allocate scarce resources for the development and production of alternative sources of energy, while a very cheap and efficient resource remains locked in the ground. The world is paying dearly in terms of economic welfare.

The hopes of the developing countries, ill-equipped to meet the costs of expensive oil, have in particular been devastated by the series of oil price increases.

Assisting the Developing World

The United States does not have to pretend an interest in the development aspirations of the developing nations. Our interest in their progress is politically, economically, and commercially genuine. Throughout the postwar period, the United States has been in the forefront of those assisting in the economic and social progress of the developing world.

Much of what we have done has been governmental -- such as the Point 4 program and other early substantial aid efforts, PL-480, and initiation and support for the World Bank and the regional banks, including their soft loan windows. Recently, Secretary Kissinger and I have put forward additional positive and constructive proposals for governmental assistance to the developing countries, including a Trust Fund to make concessional funds available to the poorest countries; a new IMF Development Security Facility to provide compensatory financing in case of export shortfalls; and a major expansion of the IFC.

Yet our partnership with the developing countries depends even more heavily on the activities of our private sector -- our manufacturers, our banks, and all our other entrepreneurs who have accepted the challenge of doing business in the developing countries. Our effort to assist the developing world is one in which private capital flows, trade, and technology transfers play a major role. We recognize the continuing needs of the poorer developing countries for official assistance, but at the same time the more successful developing countries should move away from dependence on foreign assistance to greater reliance upon private capital flows to supplement their own efforts. As they become able to do so, developing countries should "graduate" from concessional aid, such as provided by the International Development Association, to ordinary capital assistance, such as World Bank loans at near commercial interest rates. And then, when still higher income levels are achieved, developing countries must "graduate" from ordinary capital assistance to private markets.

In the trade area, developing countries should gradually accept obligations that other countries undertake to grant reciprocity and to promote more open trading arrangements. While we recognize the need for differential treatment of the developing countries in the Multilateral Trade Negotiations, there also should be agreed upon provisions for phasing out such special treatment as circumstances improve.

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As the basis for cooperation between developed and developing countries evolves, we must preserve the fundamental principles -- such as reliance upon market forces and the private sector -- on which our common prosperity depends. Solutions must be dynamic and expansionary, so that all parties will benefit. Thus, we must seek increased production and improved efficiency, not just transfer of wealth. Development assitance should be thought of not as an international welfare program to redistribute the world's wealth but as an important element of an international investment program to increase the rate of economic growth in developing nations and to provide higher living standards for people of every nation.

More specifically, in considering how the present system might be improved to the mutual benefit of all nations, we should be guided by the following principles:

-- Development by its nature is a long-term process; increasing productivity is the basis of development, not increased transfers of wealth which are one-time in nature. Foreign aid can help, but what others do will be marginal; what developing countries do for themselves will be decisive. The effectiveness of assistance depends ultimately upon the ability of the developing countries themselves to assure the best use of all the resources available to them.

-- The role of the private sector is critical. There is no substitute for a vigorous private sector mobilizing the resources and energies of the peoples of the developing countries. The technology and management expertise that the private sector commands in the industrial countries is badly needed by the LDC's, and private markets can provide essential capital resources they need for investments.

-- A free market is not perfect but it is better than any alternative system. In general the effort should be to improve conditions for the LDCs -- both internally and externally -- by removing unnecessary and burdensome government controls, not by imposing additional barriers to market forces.

-- The basic focus must be on increasing investment and making the institutional and policy improvements which will maximize growth.

-- Because of the major differences among LDCs and limits on available resources, programs must be targeted on specific conditions and needs.

Improvement in our relations with the developing nations must be based on approaches which both are responsive to their needs and consistent with the preservation of the principles and practices which make our common prosperity possible.

In making my remarks today, I am well aware of the pressures that have been generated for a so-called "New International Economic Order." And certainly there are areas where the old ways of doing things are not necessarily the best ways. We are actively engaged in discussions and negotiations seeking to improve existing arrangements, and we are confident that much progress can be made in the months and years ahead. But to the degree elements of the New International Economic Order conflict with the basic principles of free markets and free enterprise, we must decisively reject them.

These principles remain of fundamental importance to us -- they are, after all, what we stand for. It is little appreciated that our free enterprise system is at the heart of our political and social freedoms. If we fail to speak out in its defense, no one else will be able to. Many responsible leaders in developing countries share our confidence in such a system. They must have the encouragement of our support, not the discouragement of our apparent abandonment of principles they expect us to maintain.

I believe we must also reject the proposition that the economic problems of the developing countries can be resolved simply by correcting alleged deficiencies and inadequacies of the present international economic system. The devastating economic impact on the oil importing developing countries of the increases in world oil prices and the impact of recession have obscured the fact that developing countries in general prospered during the last worldwide expansion, and in my judgment will do so in the next. Moreover, some will not only prosper but flourish. There is no more damaging illusion than that the aid policies of the industrial nations hold the key to the economic future of the developing world. What is true is that our economic performance can create the environment in which their efforts can thrive. We can assist them in their efforts, but we cannot substitute for those efforts. It remains as true today as ever that the economic fortunes of individual nations will reflect primarily their own efforts, imagination, and determination. And I believe that to be not only appropriate but desirable, because the incentives and rewards in such a world lead to performance and progress that benefits all.

Conclusion

Mr. Chairman, in the next decade as in the past, our foreign policy will reflect the soundness of our domestic economic policies. If we have a strong economy at home, we will be strong abroad. If our domestic economy is weak, so will be our foreign position.

It is my firm conviction that the required direction of our domestic economic policies is already clear for many years ahead. Throughout much of the post World War II period, the entire world was at least primarily concerned, and perhaps obsessed, with the virtues of rapid economic growth. Gradually, we became aware that growth at any cost could indeed be costly. Ultimately, our obsession with growth led us into an inflation which not only created great inequities but sowed the seeds of the deepest recession in a generation.

I therefore find it almost obvious that we must revise our objectives, and work toward policies which simultaneously promote maximum sustainable growth without renewing inflation. Clearly, this means less expansionary policies than we have followed in the past. Equally clear to me is the need to give explicit and major weight in our decisions to the dangers of inflation.

In this, we have no choice. But, as we approach our problems in the years ahead, we will have one overriding choice: between a market oriented economic system, and a system which is dominated by government decision making. For this country, Mr. Chairman, I believe that the market system is the only system compatible with our form of government. Internationally, I believe our guiding principle should be to preserve and widen the freedom of the private sector to conduct international transactions, with the minimal distortion in the allocation of resources by public authorities, national or international. Following these principles, we may not change the world overnight, but at least we will be changing it in the right direction.

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FOR RELEASE ON DELIVERY

STATEMENT OF DAVID MOSSO
FISCAL ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON
DOMESTIC MONETARY AFFAIRS OF THE
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING
10:00 A.M. THURSDAY, OCTOBER 23, 1975

Mr. Chairman and Members of the Committee:

I am happy for the opportunity to appear in support of H.R. 7507, which would extend until November 1, 1977, the existing authority of the Federal Reserve Banks to purchase directly from the Treasury up to $5 billion of public debt obligations. In the absence of action, this direct-purchase authority will expire at the end of this month.

The purpose of the direct-purchase authority is to contribute to the efficient management of the public finances. On the basis of the record, I do not believe that the legislation to extend the authority for a temporary period is, itself, the least bit controversial. The authority was first granted in its present form in 1942, and it has been renewed for temporary periods on eighteen separate occasions. The authority lapsed on two occasions in recent years--from July 1 until August 14, 1973, and again from November 1 until

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October 18, 1974. These lapses traced to the extended debate on the merits of an audit of the Federal Reserve by the General Accounting Office which had been attached to the borrowing authority bill.

Since 1942, the authority has been used on only a limited number of occasions. Its value does not rest, however, on the frequency or extensiveness of its use. It rests, rather, on the simple fact of its availability as a backstop for all our Treasury cash and debt operations, permitting more economical management of our cash position and assuring our ability to provide needed funds almost instantaneously in the event of any kind of emergency. During the periods mentioned earlier, when the authority was not available, the Treasury had to maintain higher cash balances than would otherwise have been the case.

Several points may be summarized to indicate why we feel that maintenance of this authority is essential. First, it provides us with a margin of safety which permits us to let our cash balance fall to otherwise unacceptably low levels preceding periods of seasonally heavy revenues. This, in turn, results in balances that are not as high as they otherwise would be during the periods of high revenues that follow, allowing the public debt to be kept to a minimum and thus saving interest costs to the Government.

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In the second place, there is always the possibility that erratic swings in our cash flows may suddenly deplete our cash balance. Our most recent use of the authority in August of this year is traceable to such circumstances, a combination of heavy outflows of international funds and larger than expected outlays. In this instance we satisfied part of our cash needs through the issuance of 18-day Treasury bills--a new short term cash management device which was well received by the market--and part by direct borrowing from the Federal Reserve.

Finally, the direct-purchase authority is available to provide an immediate source of funds for temporary financing in the event of a national emergency on a broader scale. While it has never happened, a situation is possible in which financial markets would be disrupted at a time when large amounts of cash had to be raised to maintain governmental functions and meet the emergency. Consequently, the direct-purchase authority has for many years been a key element in all of the Treasury's financial planning for a national emergency. This is a major reason why the authority should be continued for at least $5 billion, even though little more than a fifth of that amount has ever actually been used in the past.

I want to emphasize, consistent with these three points, that the direct-purchase authority is viewed by the Treasury as a temporary accommodation to be used only under unusual circumstances. The Treasury fully agrees with the general principle that its security issues should meet the test of the market. The Treasury agrees also that the direct-purchase authority should not be considered a means by which the Treasury may independently attempt to influence credit conditions by usurping the authority of the Federal Reserve to engage in open market operations in Government securities. In that connection, it is important to emphasize that any direct recourse by the Treasury to Federal Reserve credit under this authority is subject to the discretion and control of the Federal Reserve itself.

This borrowing authority has never been abused. The accompanying table, providing details on the instances of actual use, shows that it has been used infrequently and only for limited periods. The borrowings are promptly shown in the Daily Treasury Statement and the weekly Federal Reserve statement, assuring the widespread publicity that is the best possible deterrent to abuse. The Federal Reserve also includes the information in its Annual Report to the Congress. And, of course, this borrowing, like other Treasury borrowing, is subject to the debt limit.

As an essential backstop to our cash management and as an insurance policy against financial emergency, this authority should be kept available in case of need.

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TABLE I

DIRECT BORROWING FROM FEDERAL RESERVE BANKS
1942 TO DATE

Calendar Year	Days Used	Maximum Amount At Any Time (Millions)	Number of Separate Times Used	Maximum Number Of Days Used At Any One Time
1942	19	$ 422	4	6
1943	48	1,302	4	28
1944	none	--	-	-
1945	9	484	2	7
1946	none	--	-	-
1947	none	--	-	-
1948	none	--	-	-
1949	2	220	1	2
1950	2	180	2	1
1951	4	320	2	2
1952	30	811	4	9
1953	29	1,172	2	20
1954	15	424	2	13
1955	none	--	-	-
1956	none	--	-	-
1957	none	--	-	-
1958	2	207	1	2
1959	none	--	-	-
1960	none	--	-	-
1961	none	--	-	-
1962	none	--	-	-
1963	none	--	-	-
1964	none	--	-	-
1965	none	--	-	-
1966	3	169	1	3
1967	7	153	3	3
1968	8	596	3	6
1969	21	1,102	2	12
1970	none	--	-	-
1971	9	610	1	7
1972	1	38	1	1
1973	10	485	3	6
1974	1	131	1	1
1975 1/	16	1,042	4	7

1/ Through October 17, 1975

Office of the
Fiscal Assistant Secretary

October 17, 1975

the Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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FOR RELEASE ON DELIVERY
10:00 P.M. EDT

ADDRESS BY THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
PEPPERDINE UNIVERSITY "GREAT ISSUES SERIES"
LOS ANGELES, CALIFORNIA--OCTOBER 22, 1975

President Banowsky, Distinguished Members of the Pepperdine University Governing Boards, and Ladies and Gentlemen:

To receive an honorary degree is a milestone in the life of every man. To receive an honorary degree from a university that is waging an admirable and often lonely battle to defend human liberty is a very special distinction I shall always cherish. I accept your award with deepest gratitude, and I feel proud being a member of the Pepperdine family.

Having bestowed such generous academic honors, you will permit me tonight to reflect for a few moments upon what I believe to be one of the great issues of our time: What we must do to preserve a free economy and our political freedoms in the United States.

The last two years have been a time of economic anxiety for all of us. We've had the worst inflation in our peacetime history. We've had the worst recession in more than a generation. And for the first time since our rise to industrial power, our economic system has seemed vulnerable to the political pressures of foreign nations.

If there is a silver lining -- and I think there is -- it lies in the fact that many people are wiser now about our economy than they were only a few years ago. As a nation, we have a deeper appreciation of fundamental economic concepts and a clearer understanding of the choices we face. To those who say that the old principles no longer work, we have an answer: It's not that our principles have failed but that we have failed to live up to them.

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During the 1960s, you may recall there was a popular belief that we had outgrown the business cycle: The Government, it was thought, could simply fine-tune the economy, pulling or pushing on its controls in order to assure a continually smooth, upward ride. We could spend our way to a great society, fight a land war in Asia, and solve our many other problems -- all at the same time. We know now that the economic cycle is still a powerful reality and that no government can guarantee instant happiness for everyone.

We also have a better grasp of the implications of ever-increasing government spending and government deficits for the economy. Only a few years ago, many respected economists thought that government pump priming during a period of slack was a guaranteed method for safely reviving the economy. Today we know that when the government occupies a major role in our economic system, as it does now, further deficit-spending by the government beyond a certain level will produce only new inflation and a further contraction of the economy.

When the government is already borrowing four out of every five dollars in the long-term capital markets, additional government borrowing can only drive up interest rates further and prevent even more would-be private borrowers from obtaining the funds they need to underpin the recovery process. Today, access to the capital markets for all practical purposes is limited to only top-rated companies, and long term interest rates are at high levels formerly associated with the final stages of a boom rather than the early months of recovery.

We are now in the midst of a healthy economic recovery. To be sustainable, the recovery must be broad-based; the credit system must be capable of providing funds to every sector of the economy. That is why it is essential that as the recovery progresses, the Government must play a less dominant and demanding role in the financial markets.

There has also been a growing awareness of the need for much higher levels of capital investment. There is now widespread agreement within the business community and even in Washington that in order to create almost 20 million jobs during the coming decade and to meet other economic goals such as greater self-sufficiency in energy, we must tilt our economic system away from its heavy emphasis upon consumption and government spending and toward a greater stress upon private savings and investment. The goal of $4 1/2 trillion in new investment over a 10-year span is formidable by any standard, but it can be done if we remove the shackles government has imposed upon the private enterprise system. As the Reverend Leon Sullivan once told me: "If you want to kill a tree, bind it; but if you want the tree to live, water its roots."

Still another lesson that we have learned in the last two years is this: Washington does not hold the answer to all of our problems and very often isn't even asking the right questions. Indeed, government itself -- in the form of government spending, government deficits, government bureaucracy, and government regulation -- lies at the core of many of our national problems. Most of us would agree that the government must serve many beneficial purposes, but we have increasing doubts about its ability to accomplish every thing it is attempting to do. In talking about the role of the United States in the world, Arnold Toynbee once said that "America is a large, friendly dog in a very small room. Every time it wags its tail, it knocks over a chair." Much the same can be said about the Federal Government within our economy; and it's time that we put the Government on a shorter leash.

None of these lessons is especially new or original. Reading back over the debates that have engaged Americans since the early days of the Republic, one is struck by the similarity of concerns that run through our history. Each generation is required to learn for itself what makes our private enterprise system grow and flourish, and our generation is no exception. What is new to this age is the extent to which our country has drifted toward a centralized economy. The hour is late. Unless our generation takes decisive action, we may forfeit the opportunity to preserve a free economy and our own political freedoms in this country.

In a very basic sense, our nation has reached a point where we must choose between the restoration of a more competitive and open society or resign ourselves -- perhaps irrevocably -- to a society in which the large decisions about our economic and personal welfare are made by the central government. Let there be no mistake: A failure to act constitutes a choice on our part, for the forces that will drag us down are already in motion. They have been tugging at us during the past several years and we know that it is up to us to halt their momentum and to put the economy on a fresh course for the future.

There is one additional lesson of recent years that we may not have learned so well and that I want to explore more deeply with you. It is a lesson that is central to our efforts. Unless we heed it, our struggle to preserve and strengthen the private enterprise system in America is doomed to fail. The lesson is simply this: to restore public faith in the American economic system--the faith that holds the system together--we must not only make basic changes in the way that Government behaves but the business community must also undertake a far-reaching effort to put its own house in order.

The fact is that the public has almost as little faith in business today as it has in Government. All of you are familiar with the opinion polls showing a sharply plunging loss of confidence in most of our major institutions. The government, the church, the courts--all have suffered. But the percentage decline has been larger and more precipitous for business than for anyone else. According to the polls, confidence in business has slipped from more than two-thirds of the people to less than one-fifth.

Clearly we must be concerned with what lies behind this collapse. Earlier this year, Daniel Yankelovich, a respected polling figure and a Professor of psychology, offered several insights into the problem.

The Yankelovich data reveal a remarkable degree of public support for free enterprise itself. Fully 91 percent of the public feels that the government should not own or run big business in the same way that business is run in socialist countries. And about six out of every ten people say they're prepared to sacrifice, if necessary, to preserve the free enterprise system.

What has been lost, he finds, is not public faith in free enterprise principles but in the practices of those who are now part of that system. The rules of the game still make sense to people, but there is a deepening sense that the rules are being violated. In the terms of Mr. Yankelovich, while business retains its ideological legitimacy, it is losing its moral legitimacy.

And the heart of the matter is a belief that business has become not only too powerful but also too greedy. Instead of serving the public interest, business is now regarded as serving its own selfish private interest--and at the public's expense. The public outcry that the oil companies manipulated the energy crisis to line their own pockets is perhaps the most obvious example, but there have been many other illustrations, extending from Government subsidies for big corporations to the well-publicized corporate bribery of public officials. In theory at least, the public does not object to profit-making. But it does object to what it perceives to be widespread profiteering.

These objections could have a decisive impact on the future of the private enterprise system. History has shown us time and again that the public attitudes of one era become the public statutes of the next. Thus, it is entirely possible in coming years that we will see not less governmental regulation of Business--as the Administration is now advocating--but far more governmental regulation. In fact, the Yankelovich polls showing high popularity for free enterprise also find that three-quarters of the American people want more regulation: They want the Federal government to "regulate major companies, industries and institutions to be sure they don't take advantage of the public."

Given these circumstances, I would suggest that business leaders who care about the future of free enterprise--and indeed, of freedom itself--have an urgent responsibility to set about restoring greater public trust and confidence in the institutions they run. And there are, I would suggest, three major steps that must be taken as rapidly and as aggressively as possible.

The first and most obvious step is that the business community must set a high moral standard. We all recognize, of course, that corporate corruption is limited. But we must also recognize that instances of corruption have been highly publicized and the reputation of the entire business community is now being stained with them. Specifically, each of you must hold yourself and your colleagues to the highest possible standard of business ethics.

In the post-Watergate environment when a relentless, almost obsessive search goes on to find new villains, it is hardly surprising that unwholesome business practices have attracted widespread attention. Rather than hiding from the publicity or denying that anything ever goes wrong, businessmen should welcome this opportunity to put an end to the corporate abuses that do exist so that they will regain the public confidence that they deserve. If corporate leaders will only take it upon themselves to examine their own organizations and get rid of all practices that they believe to be questionable, they will do far more to improve the environment for the business community than any number of pious speeches extolling the virtues of free enterprise. And let us be clear: If business is unsuccessful in policing itself, we can expect that the public will insist upon doing it for them--through the heavy hand of government.

The second major step that must be taken logically follows the first: I believe it is absolutely necessary for the business community to begin squaring its practices with its principles. One of my saddest experiences in public life has been to see businessmen--the public champions of free enterprise--come trooping into Washington, hat-in-hand, whenever they need shelter from an economic storm.

Let us ask ourselves: who among us is strong enough to resist the temptation--not to fall prey to the notion of keeping our profits and nationalizing our losses? Where are the statesmen of our age?

Franklin Roosevelt used to take great delight in needling businessmen who sought out the protection of the New Deal. "I know how the knees of all our regged individualists were trembling four years ago," he said toward the end of his first term. "They came to Washington in great numbers. Washington did not look like a dangerous bureaucracy to them then. Oh, No! It looked like an emergency hospital. All of the distinguished patients wanted two things--a quick hypodermic to end the pain and a course of treatment to cure the disease. They wanted them in a hurry; we gave them both."

Unfortunately, the practices of the 1930's are still very prevalent today. I can well remember George Shultz telling me of his meeting with business leaders in 1971. They were strenuously urging that the government impose wage and price controls, and they were impatient with him. Business learned soon enough why he opposed controls, and within two years after controls were imposed, those same leaders were begging him to help get the government out of the marketplace. Controls have been tried throughout history; not once have they worked. And much the same can be said of other forms of government intervention and protection. Tariffs, subsidies, quotas, handouts, bailouts -- I've seen them all and not one is worth its ultimate price. They all offer a hollow, empty promise of security, and they all lead in the end to a sacrifice of freedom.

The third obvious step the business community must take is to initiate a far more energetic program of basic public education in the economic as well as political values of freedom. We must ensure that the lessons of recent years sink in at the grass roots level -- that people clearly understand where we're headed.

You have heard that said so often in the past that you may think it nothing more than a harmless platitude. You may recall the statement by Luther Hodges back in the early 1960s after he had served as Secretary of Commerce, "If ignorance paid dividends," he said, "most Americans would make a fortune out of what they don't know about economics." I don't say this to be flippant or sarcastic. Instead, let us recognize that today the stakes are much higher. Now our lack of complete understanding, far from being a joke, could destroy our economy, our prosperity and indeed, our freedom.

Let us begin by teaching everyone the fundamentals again -- about profits, capital investment, and productivity. A majority of Americans now believe that 33 cents out of every dollar of sales is recorded as corporate profits. In reality, profits are less than 5 cents out of every dollar. This gap in public understanding speaks volumes about the task ahead.

But the argument for free enterprise must not rest on fundamentals alone: It must also be cast in human terms. Being pro-business is the same as being pro-people. You must make it clear what the fundamentals mean: That economic growth yields direct benefits to wage earners, consumers and producers -- more jobs, higher wages, and less inflation. Our painful experience with the deep recession should put the lie once and for all to the notion that zero-growth would be good for America.

Those who practice free enterprise -- more than anyone else -- should be responsible for getting its success story across to the American people. Over the years, the United States economy has created the highest standard of living in the world; the average family income approached $13,000 in 1974; poverty has been sharply reduced to 13 percent of the population; jobs have been created for over 86 million people; and we continue to spend about 90 percent of our personal disposable income on ourselves. This is not a "trickle down" system; it is the most effective "flow through" system of benefits and personal gains ever devised, and no sarcastic slogans will ever refute that reality.

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In a free economy, the products which people are willing to pay for will be produced, just as an adequate price will insure an adequate return. Things for which the people are not willing to pay an adequate price, we will not get. That is not only the essence but the genius of the American economic system. The principal difficulty today is not that our economic system will not work, but rather that our political system is subverting it.

It is up to all of us here to combat the false belief that the Government can identify, solve and somehow pay for all of the problems of society. That belief has no validity in either fact or theory. What it has produced instead is one of the worst cases of inflation in our history -- inflation that has far-reaching social and political implications. A continuation of this inflation will place this country's entire private enterprise system in jeopardy. If our financial markets remain under their current strains, if utilities have trouble obtaining necessary financing to keep up with inflation, if money flows out of the thrift institutions because of inflation, if the housing industry suffers along with the thrifts, and if the airlines, the real estate investment trusts, and others go to the wall, who will be called in to the rescue? If the retired people of this country cannot protect themselves against inflation, who is it that can serve as a rescuer? You know the answer: The Government. Clearly, continued inflation would bring a massive expansion of the public sector and would threaten the very survival of large areas of the private sector. And what I am talking about tonight is not big business, not the Fortune 500, but all business -- small, medium and large.

The American economic system today is under attack as it never has been before. And that attack comes as the country is drifting dangerously down the path toward a centralized economy. Now it is time for leaders of the business community to come to the defense of our economic system. It's time to lay it on the line for the American people. We have reached a watershed. Either we continue down the path of recent years -- a path that will inevitably lead to socialism in the United States of America -- or we fight now to preserve our economic and political freedoms.

Let us make it clear to the American people that the choice is between those who believe that government should make the choices for individuals and those who believe that individuals should choose for themselves. And let us make it equally clear where the so-called liberalism of today really leads: To the destruction of our liberty.

Ladies and Gentlemen: America is still incredibly strong. Its mainspring is the largest and most dynamic marketplace in the world. We have the resources, and we know how to rebuild our economy. The central question is whether we have the will and the courage to rescue ourselves from the relentless drift we have experienced in recent years.

It cannot be said too often that a centralized economy in America -- the kind of economy we are now constructing -- is the surest means we have of destroying the mainspring of our prosperity and our progress. In the United States today, we already have more government than we need, more government than most people want, and certainly more government than we are willing to pay for.

An epitaph written for ancient Athens and attributed to the pen of the historian Edward Gibbon is relevant for us now. "In the end," he wrote, "more than they wanted freedom, they wanted security. They wanted a comfortable life and they lost it all -- security, comfort and freedom. When the Athenians finally wanted not to give to society but for society to give to them, when the freedom they wished for most was freedom from responsibility, then Athens ceased to be free."

Whether the same will one day be said of America is the choice now before us. As leaders of the business community, each of you will have an important voice in deciding our country's direction and fate. Let there be no doubt of your choice for a free America.

Thank you.

# # # # #

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

For information on submitting tenders in the Washington, D. C. area: PHONE WO4-2604

FOR IMMEDIATE RELEASE October 22, 1975

1126

TREASURY ANNOUNCES NOVEMBER REFINANCING

The Treasury will auction to the public $2.5 billion of 7-year notes, and $1.0 billion of 24-year 9-month bonds. This will refund $2.4 billion of notes held by the public maturing November 15, and raise new cash. Additional amounts of the securities may be issued at the average price of accepted tenders to Government accounts and to Federal Reserve Banks, which hold $0.7 billion of maturing notes, and to foreign and international monetary authorities.

The securities to be auctioned will be:

> Treasury Notes of Series C-1982 dated November 17, 1975, due November 15, 1982 (CUSIP No. 912827 FB 3) with interest payable on May 15 and November 15. The coupon rate will be determined after tenders are allotted.
>
> An additional amount of 8-3/8% Treasury Bonds of 1995-2000 dated August 15, 1975, due August 15, 2000, callable at the option of the United States on any interest payment date on and after August 15, 1995 (CUSIP No. 912810 BV 9) with interest payable on February 15 and August 15.

The notes and bonds will be issued in registered and bearer form in denominations of $1,000, $5,000, $10,000, $100,000 and $1,000,000, and will be available for issue in book-entry form. Payment for the securities must be made on November 17, 1975. Payment may not be made through tax and loan accounts.

Tenders for the notes will be received up to 1:30 p.m., Eastern Standard time, Wednesday, October 29, and tenders for the bonds will be received up to 1:30 p.m., Eastern Standard time, Thursday, October 30 at any Federal Reserve Bank or Branch and at the Bureau of the Public Debt, Washington, D. C. 20226; provided, however, that noncompetitive tenders will be considered timely received if they are mailed to any such agency under a postmark no later than October 28 for the notes and October 29 for the bonds. Each tender for the notes and bonds must be in the amount of $1,000 or a multiple thereof. Each tender must state the price offered or yield desired, if a competitive tender, or the term "noncompetitive", if a noncompetitive tender.

Competitive tenders for the notes must be expressed in terms of annual yield in two decimal places, e.g., 7.11, and not in terms of a price. Tenders at the lowest yields, and noncompetitive tenders, will be accepted to the extent required to attain the amount offered. After a determination is made as to which tenders are accepted, a coupon yield will be determined to the nearest 1/8 of 1 percent necessary to make the average accepted price 100.000 or less. That will be the rate of interest that will be paid on all of the notes. Based on such interest rate, the price on each competitive tender allotted will be determined and each successful competitive bidder will pay the price corresponding to the yield bid. Price calculations will be carried to three decimal places on the basis of price per hundred, e.g., 99.923, and the determinations of the Secretary of the Treasury shall be final. Tenders at a yield that will produce a price less than 98.501 will not be accepted. Noncompetitive bidders will be required to pay the average price of accepted competitive tenders; the price will be 100.000 or less.

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(OVER)

Competitive tenders for the bonds must be expressed in terms of price, in two decimals, e.g., 100.00. Tenders at a price less than 94.01 will not be accepted. Tenders at the highest prices will be accepted to the extent required to attain the amount offered. Successful competitive bidders will be required to pay for the bonds at the price they bid. Noncompetitive bidders will be required to pay the average price of all accepted competitive tenders; the price may be 100.00, or more or less than 100.00.

Fractions may not be used in tenders. The notation "TENDER FOR TREASURY NOTES (OR BONDS)" should be printed at the bottom of envelopes in which tenders are submitted.

The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations noncompetitive tenders for $500,000 or less for each issue will be accepted in full at the average price of accepted competitive tenders.

Commercial banks, which for this purpose are defined as banks accepting demand deposits, and dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, may submit tenders for the account of customers, provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account.

Tenders will be received without deposit from commercial and other banks for their own account, Federally-insured savings and loan associations, States, political subdivisions or instrumentalities thereof, public pension and retirement and other public funds, international organizations in which the United States holds membership, foreign central banks and foreign States, dealers who make primary markets in Government securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon, Federal Reserve Banks, and Government accounts. Tenders from others must be accompanied by payment of 5 percent of the face amount of securities applied for. However, bidders who submit checks in payment on tenders submitted directly to a Federal Reserve Bank or the Treasury may find it necessary to submit full payment for the securities with their tenders in order to meet the time limits pertaining to checks as hereinafter set forth. Allotment notices will not be sent to bidders who submit noncompetitive tenders.

Payment for accepted tenders for the notes and bonds must be completed on or before Monday, November 17, 1975, and in the case of the bonds include accrued interest from August 15 to November 17, 1975, in the amount of $21.39266 per $1,000 of bonds allotted. Payment must be in cash, 7% Treasury Notes of Series D-1975, which will be accepted at par, in other funds immediately available to the Treasury by the payment date or by check drawn to the order of the Federal Reserve Bank to which the tender is submitted, or the United States Treasury if the tender is submitted to it, which must be received at such Bank or at the Treasury no later than: (1) Wednesday, November 12, 1975, if the check is drawn on a bank in the Federal Reserve District of the Bank to which the check is submitted, or the Fifth Federal Reserve District in case of the Treasury, or (2) Monday, November 10, 1975, if the check is drawn on a bank in another district. Checks received after the dates set forth in the preceding sentence will not be accepted unless they are payable at a Federal Reserve Bank. Where full payment is not completed on time, the allotment will be canceled and the deposit with the tender up to 5 percent of the amount of securities allotted will be subject to forfeiture to the United States.

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1128

Treasury Net Borrowing From The Public
Actual and Prospective
July - December 1975

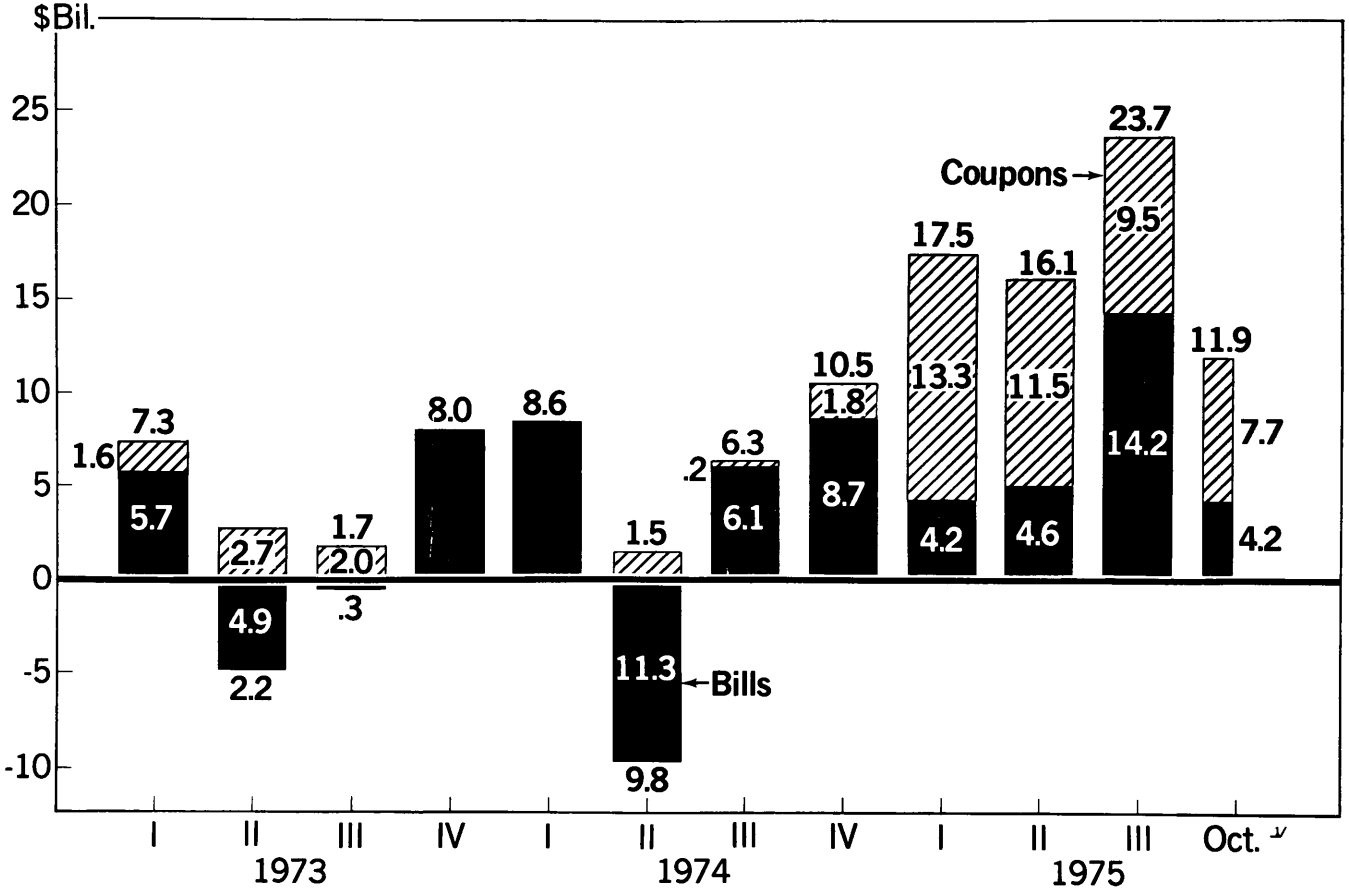
($ Billions)

	Bills	Coupons	Total
ne to Date	18-1/2	17-1/4	35-3/4
nounced Today:			
November 15, 1982 Notes		2-1/2	
Reopened August 15, 1995-2000 Bonds		1	
(Less: Maturing Notes)		(2-1/2)	
		1	
Net Cash			1
anned:			
Increases in November and December 52-week bills ($1 billion each)	2		2
mainder:	3 1/2-7*	1/2 - 1 1/2	4 3/4 - 7 3/4
tal Net Market Borrowing	24 - 27 1/2	18 3/4-19 3/4	43 1/2-46 1/2
us: Other (savings bonds, foreign nonmarketables, etc.)			1/2
uals: Net Borrowing From The Public			44 - 47

Regular and Cash Management Bills

TREASURY NET NEW MONEY BORROWING - QUARTERLY

Calendar Years 1973 - 1975



Office of the Secretary of the Treasury
Office of Debt Analysis

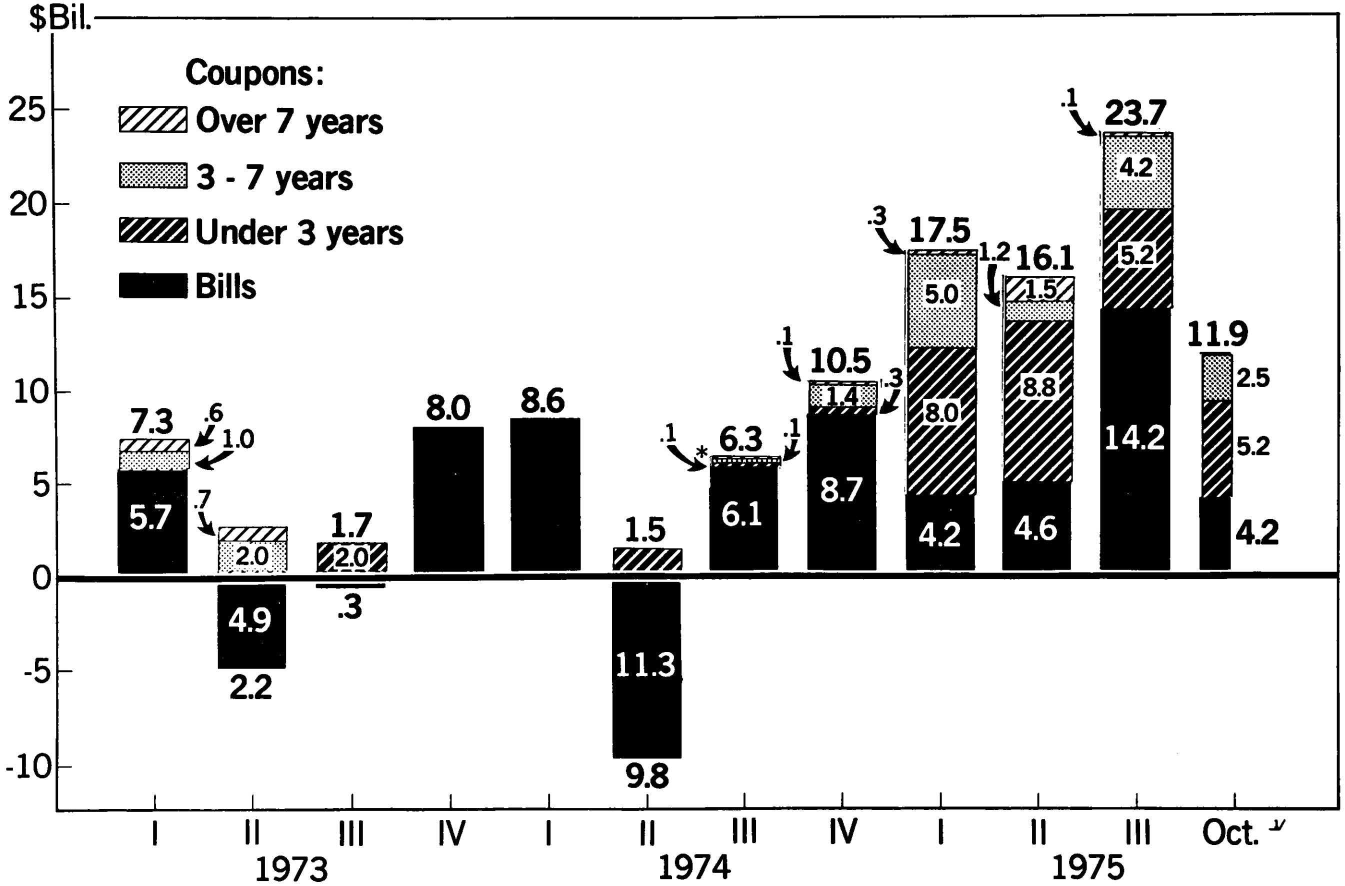
1/ Partly Estimated

October 21, 1975-14

1129

TREASURY NET NEW MONEY BORROWING - QUARTERLY

Calendar Years 1973 - 1975



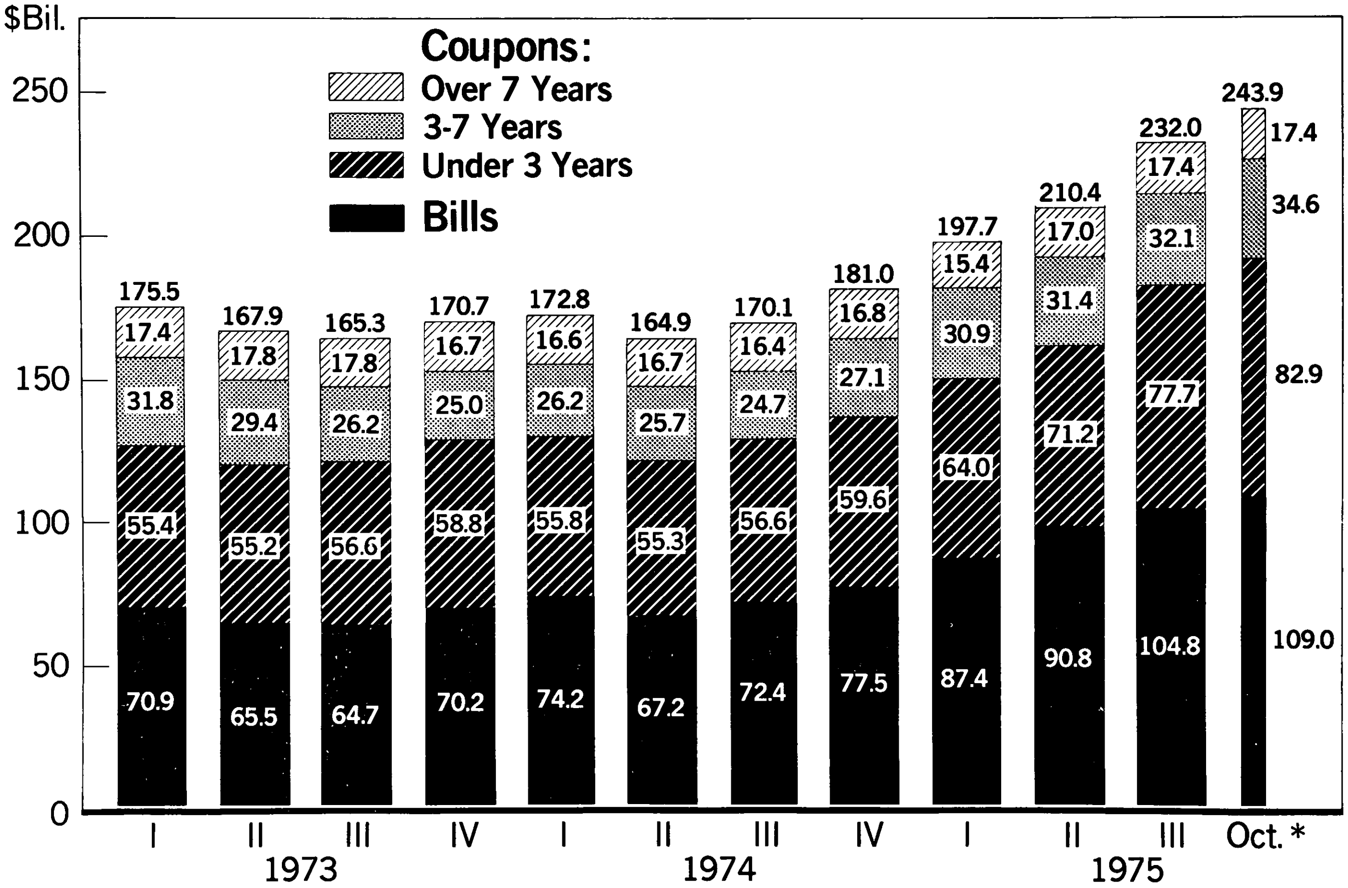
Office of the Secretary of the Treasury
Office of Debt Analysis

1/ Partly Estimated
* Less than $50 million.

October 21, 1975-37

1178

MATURITY DISTRIBUTION OF PRIVATELY HELD TREASURY MARKETABLE DEBT



*Estimated

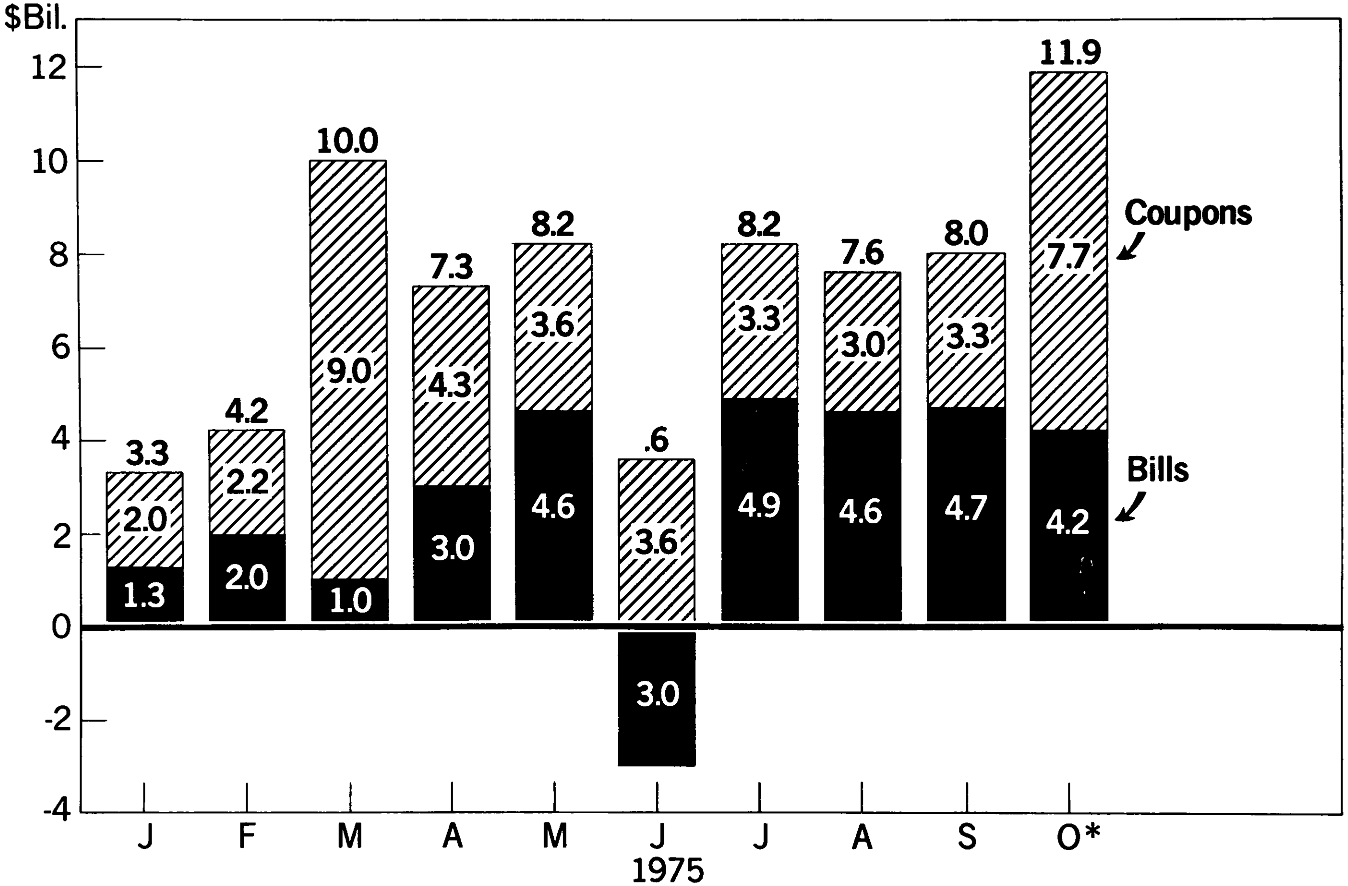
Office of the Secretary of the Treasury
Office of Debt Analysis

October 21, 1975-22

1131

TREASURY NET NEW MONEY BORROWING 1/

Calendar Year 1975 to Date



1/ Excludes exchanges to FRB and Government Accounts.
* Partly Estimated

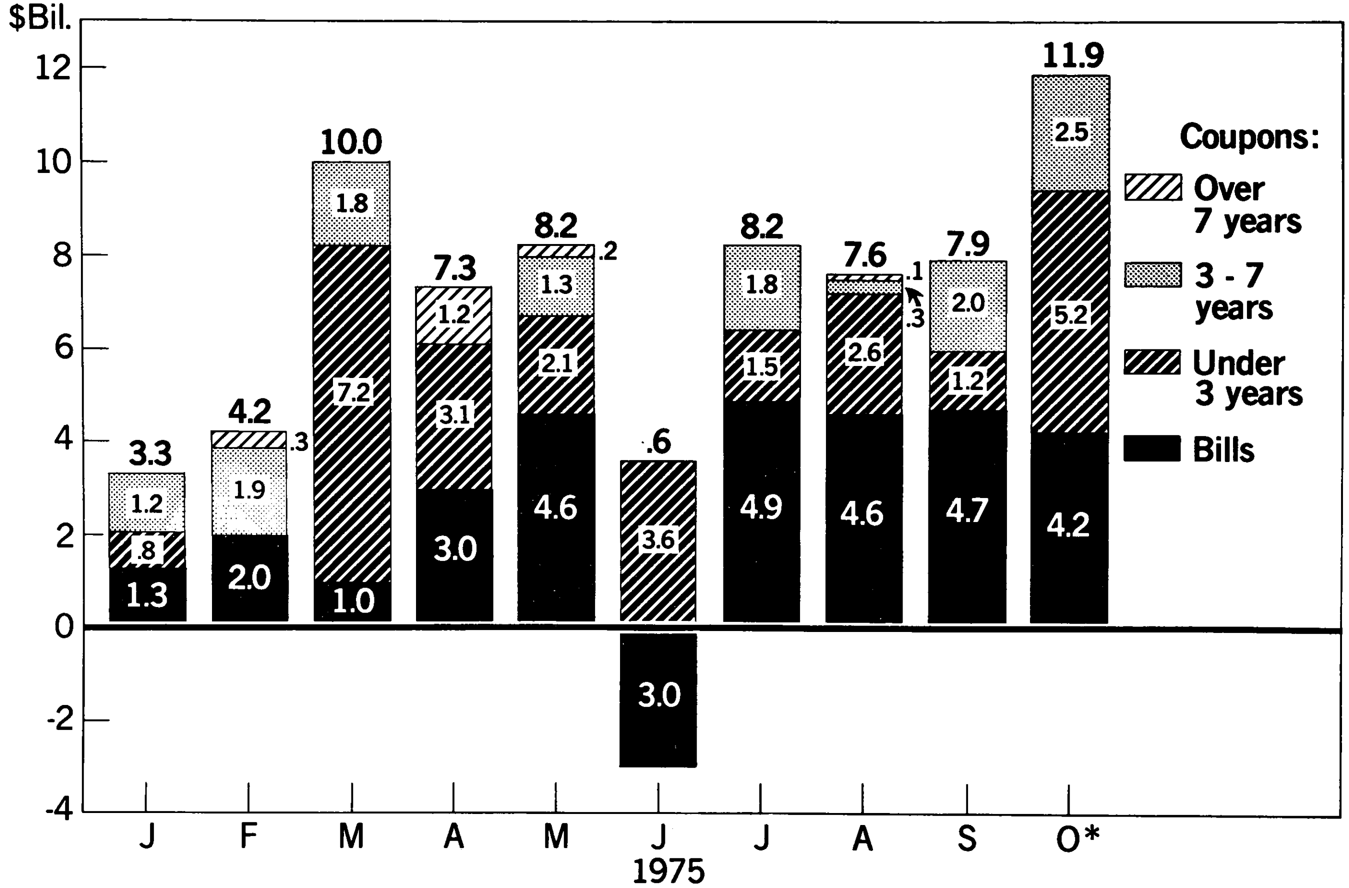
Office of the Secretary of the Treasury
Office of Debt Analysis

October 21, 1975-32

1132

TREASURY NET NEW MONEY BORROWING 1/

Calendar Year 1975 to Date



1/ Excludes exchanges to FRB and Government Accounts.
* Partly Estimated

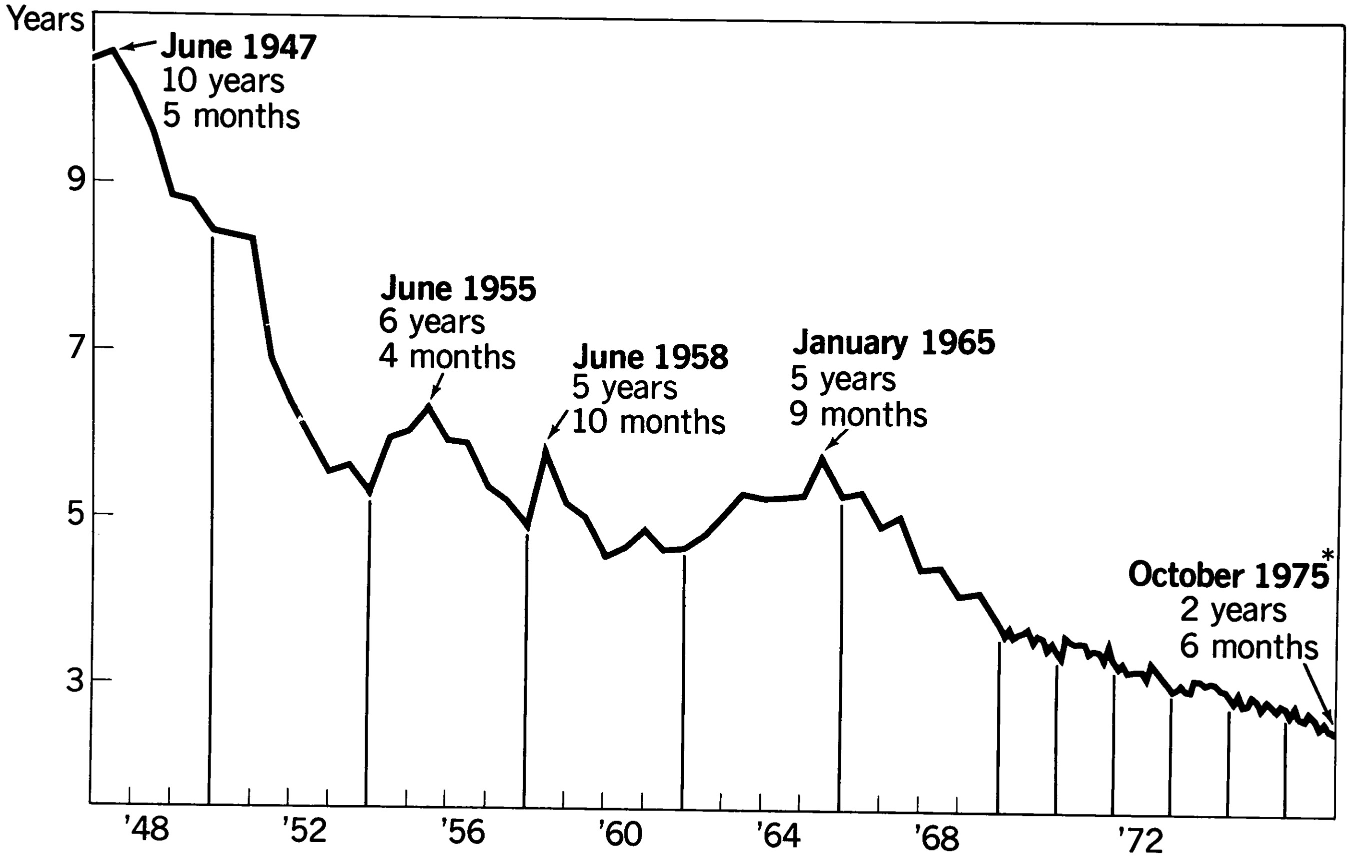
Office of the Secretary of the Treasury
Office of Debt Analysis

October 21, 1975-36

1133

AVERAGE LENGTH OF THE MARKETABLE DEBT 1/

Privately Held



1/ Semi-annual plots, calendar years 1946-1969, monthly thereafter.

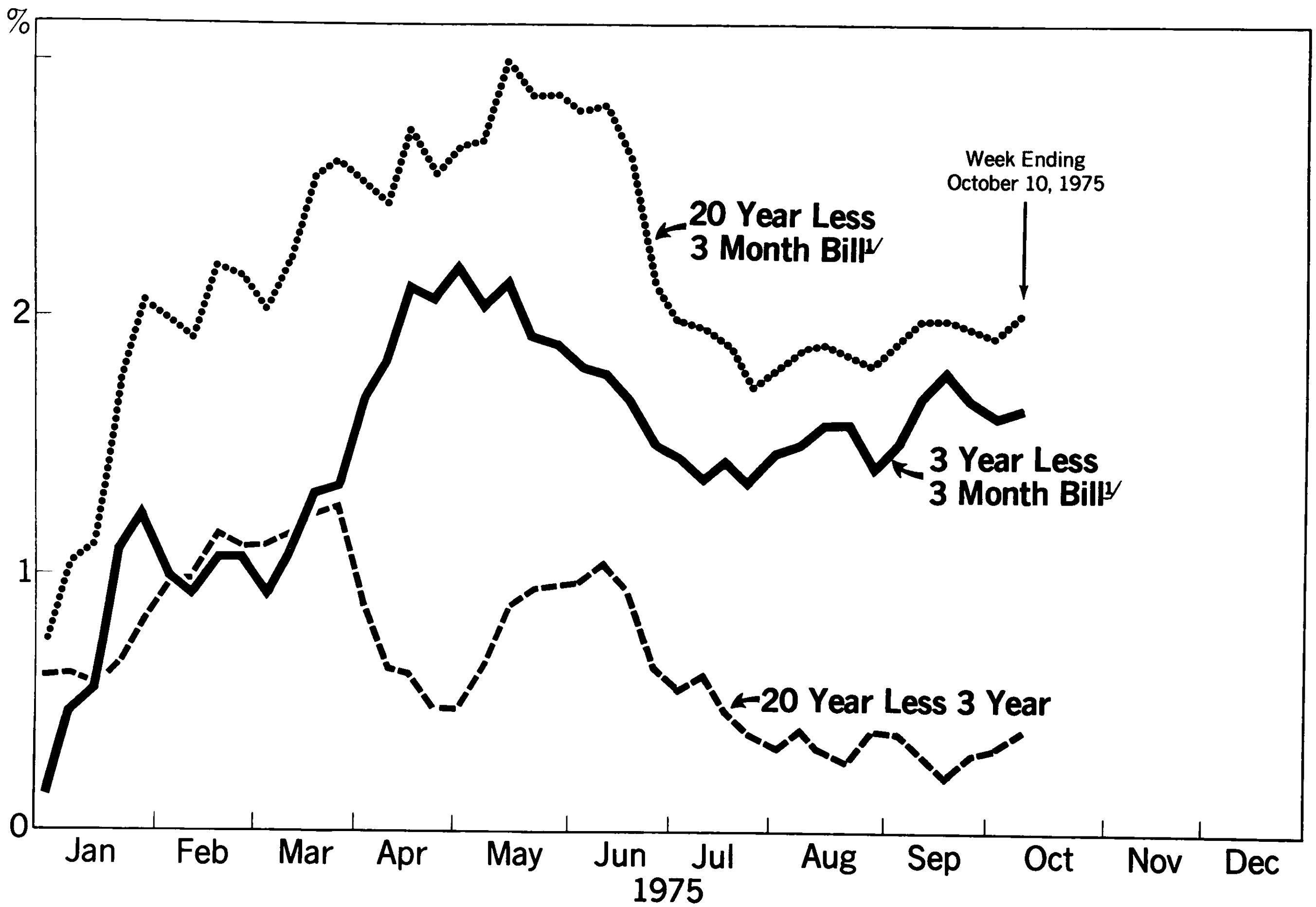
* Estimated

Office of the Secretary of the Treasury
Office of Debt Analysis

October 21, 1975-1

1134

TREASURY YIELD CURVE SPREADS



1/3 Month bill on coupon equivalent basis.

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Office of Debt Analysis

October 21, 1975-19

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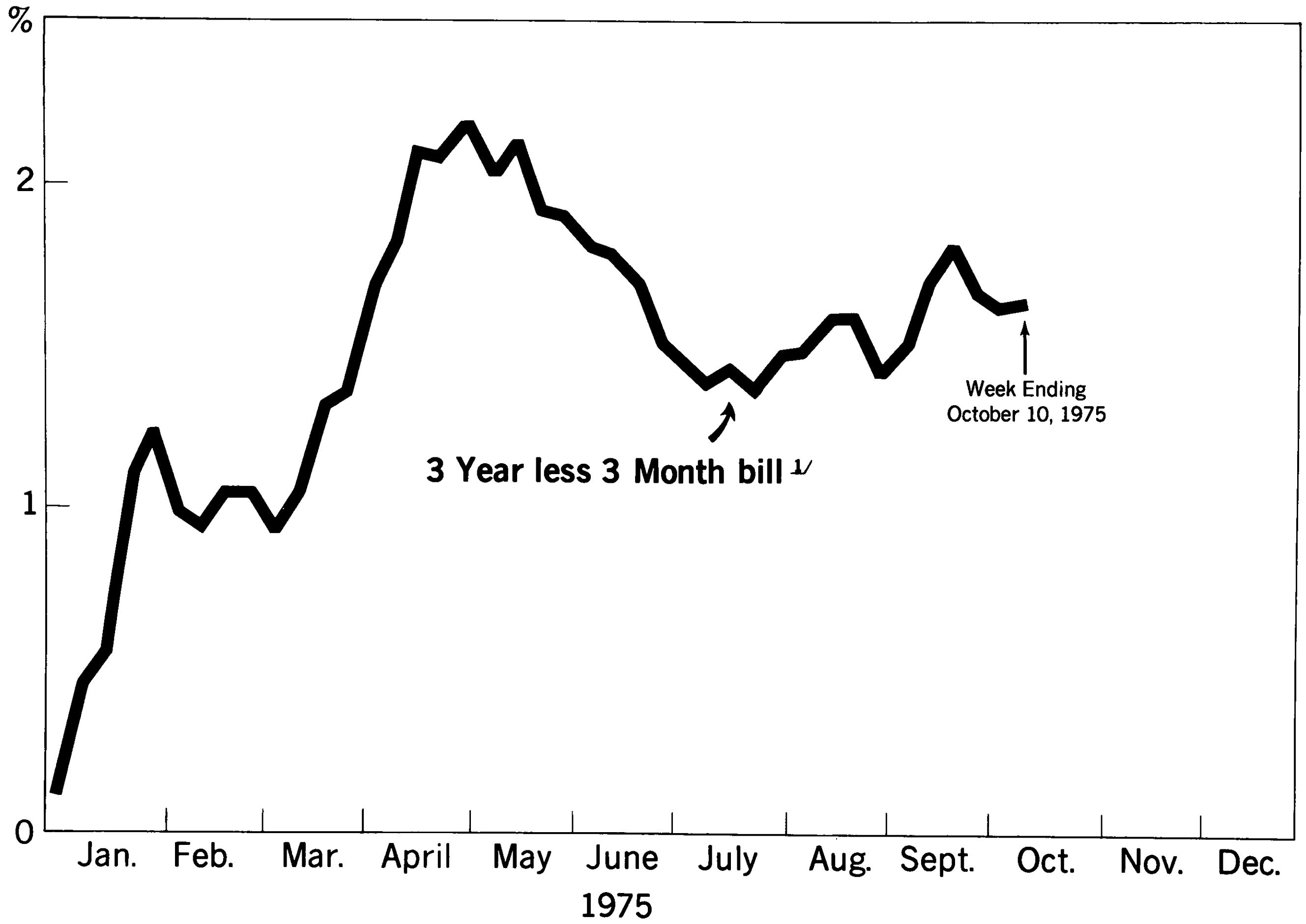
TREASURY YIELD CURVE SHOULDER



1/ 3 month bill on a coupon equivalent basis.

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Office of Debt Analysis

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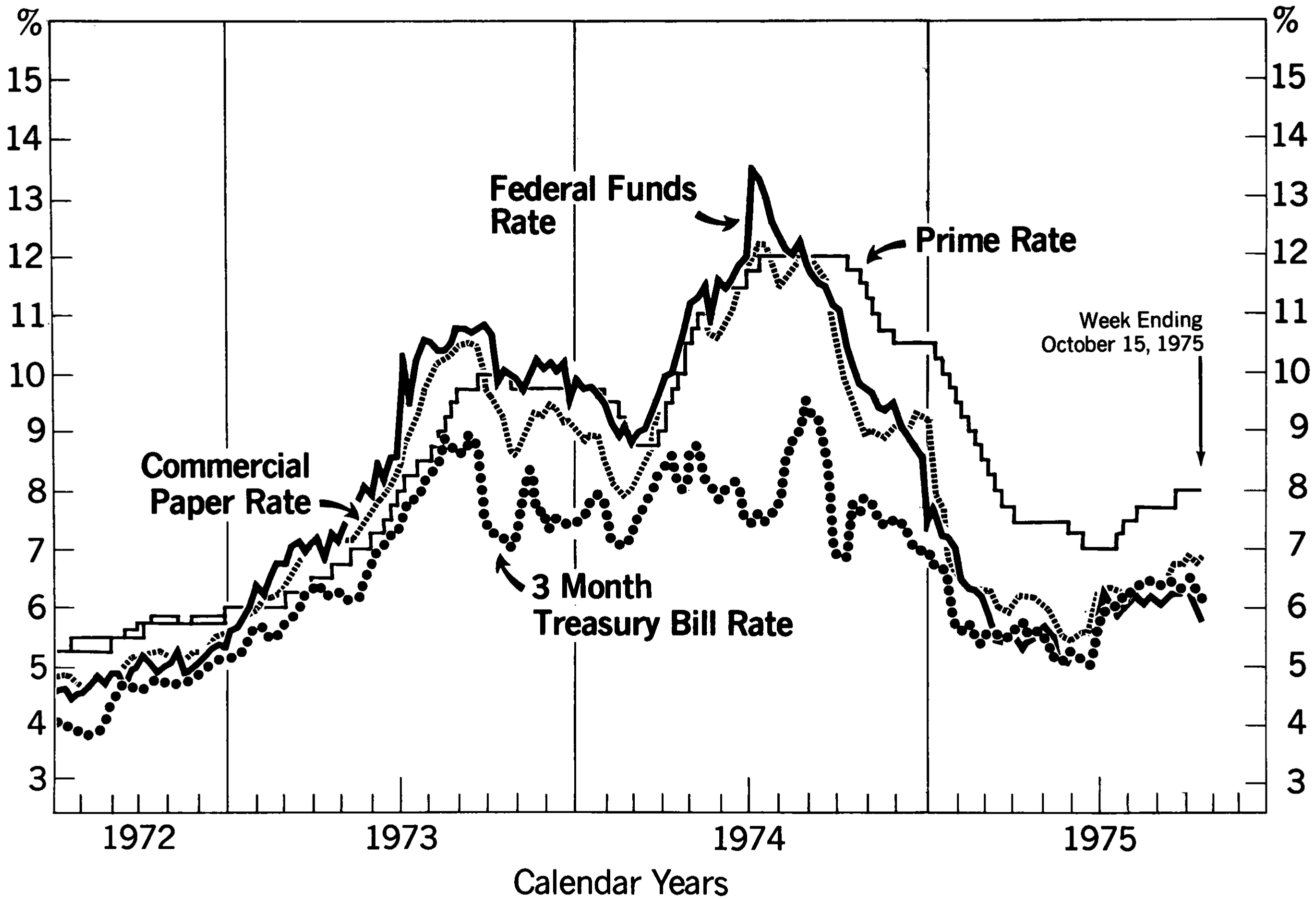
11,36

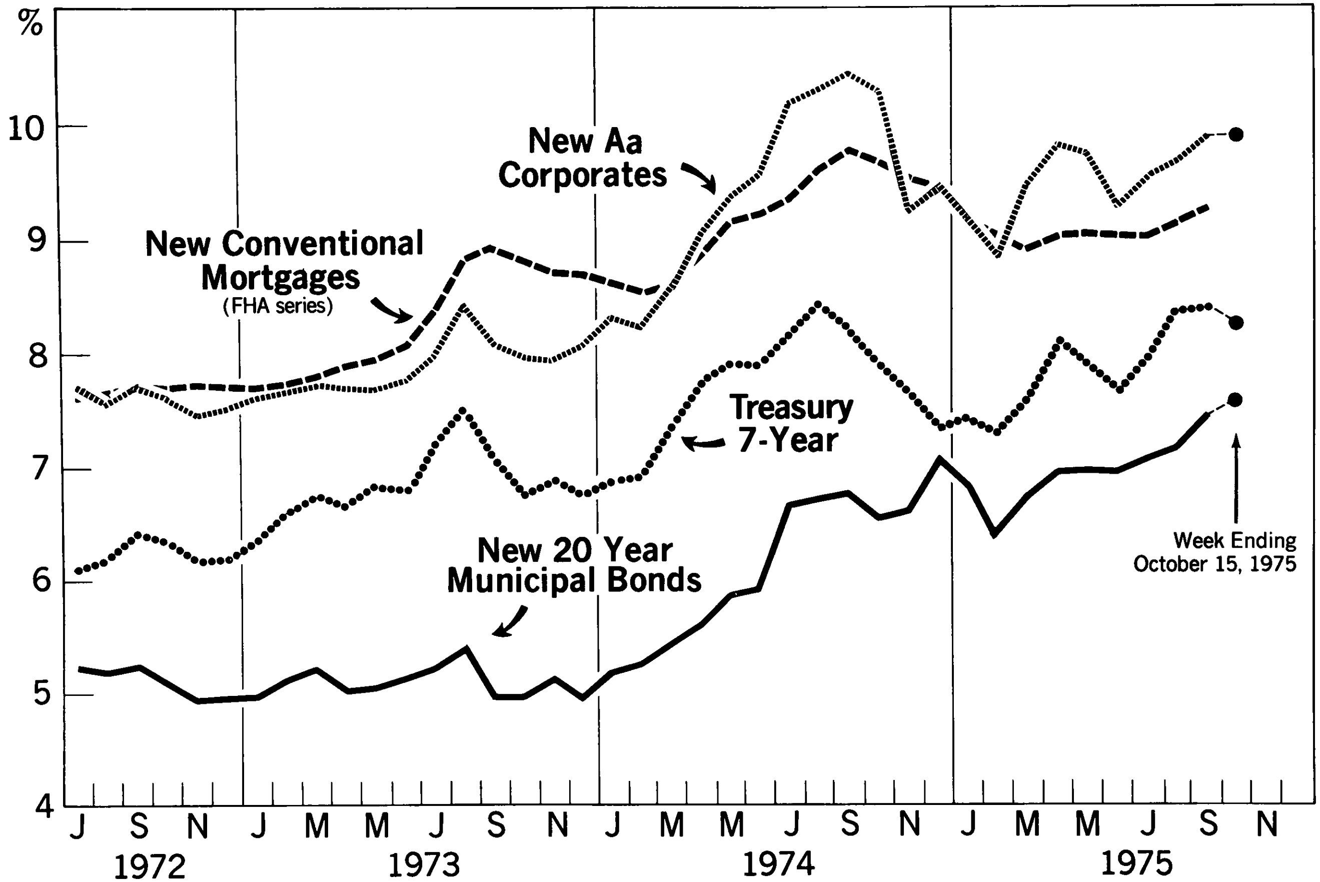
SHORT TERM INTEREST RATES

Weekly Averages



INTERMEDIATE AND LONG MARKET RATES

Monthly Averages



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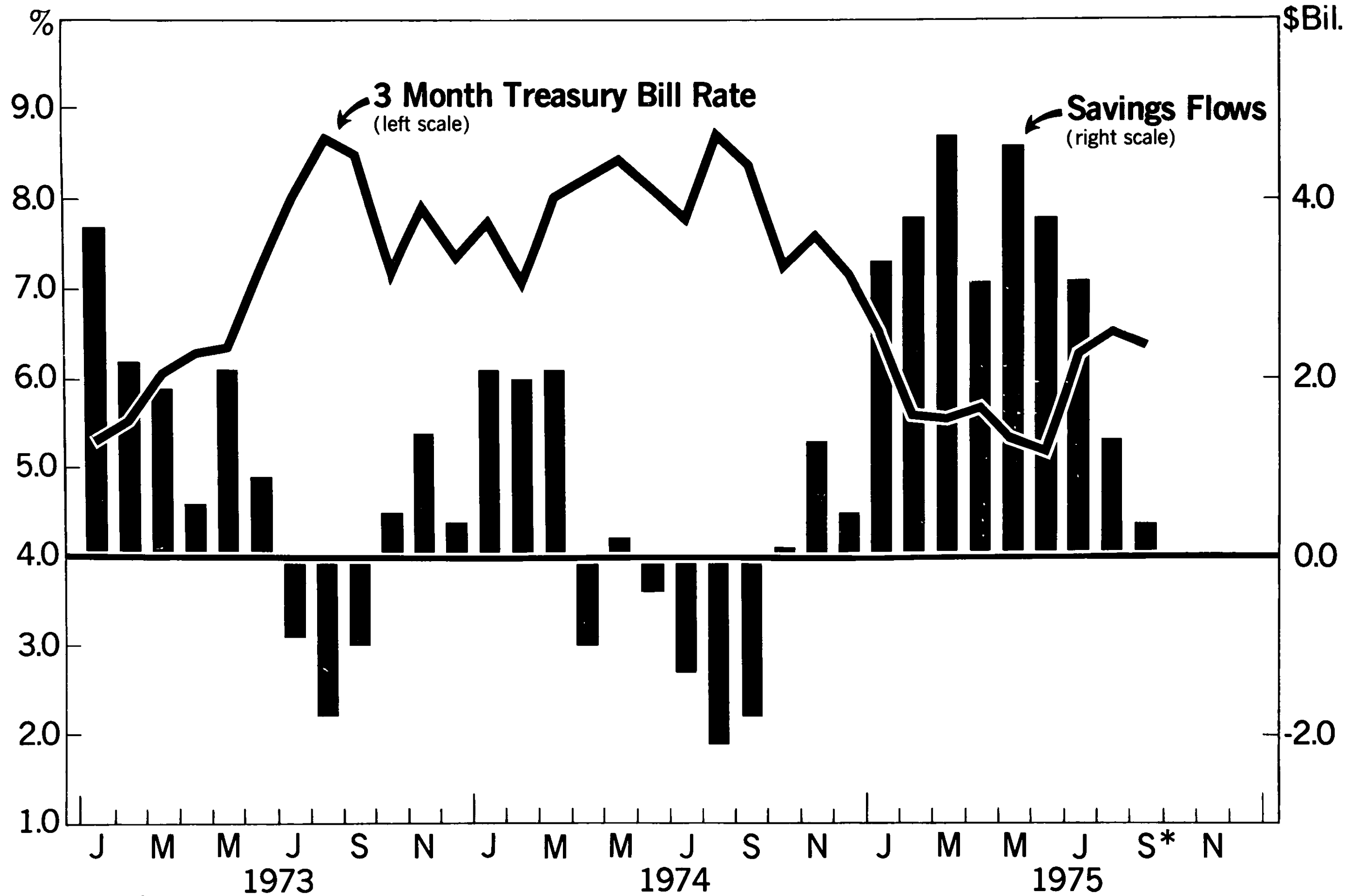
NET NEW SAVINGS FLOWS[1]



* Estimated.

1/ Net new savings received at Savings and Loan Associations and Mutual Savings Banks exclusive of interest credited.

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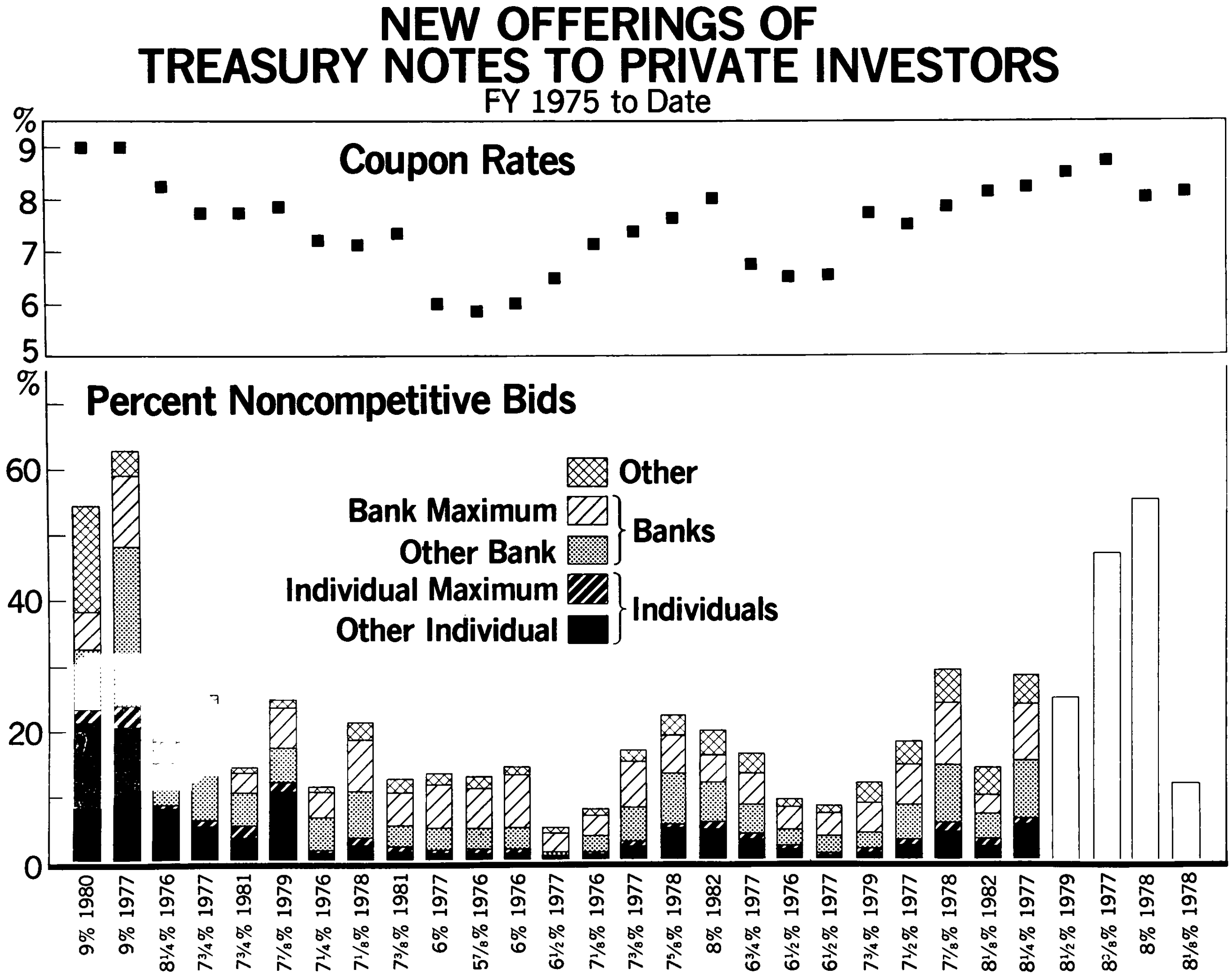
Office of Debt Analysis

October 21, 1975-15



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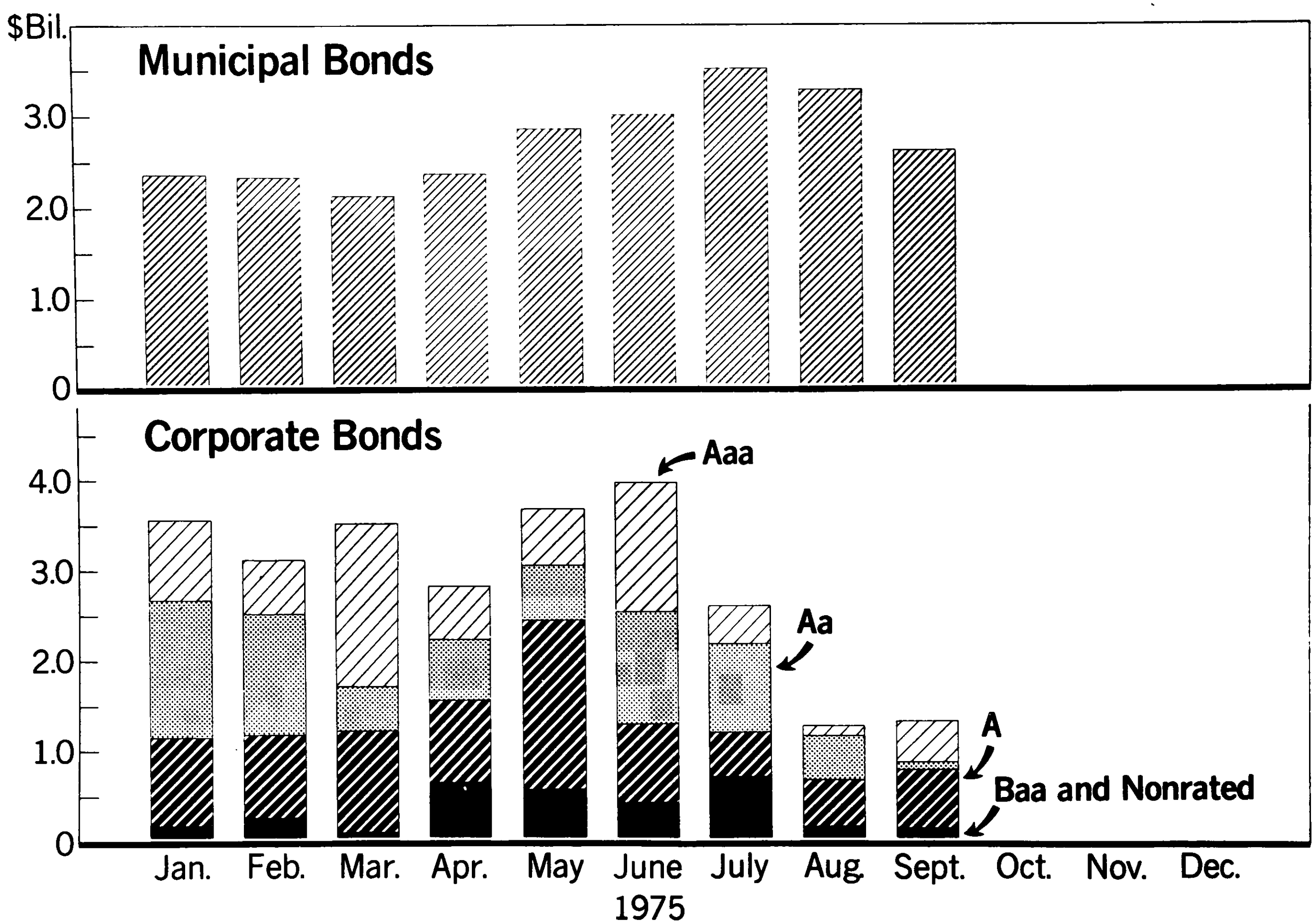
Office of Debt Analysis

October 21, 1975-16

NEW ISSUES OF MUNICIPAL AND CORPORATE BONDS



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Office of Debt Analysis

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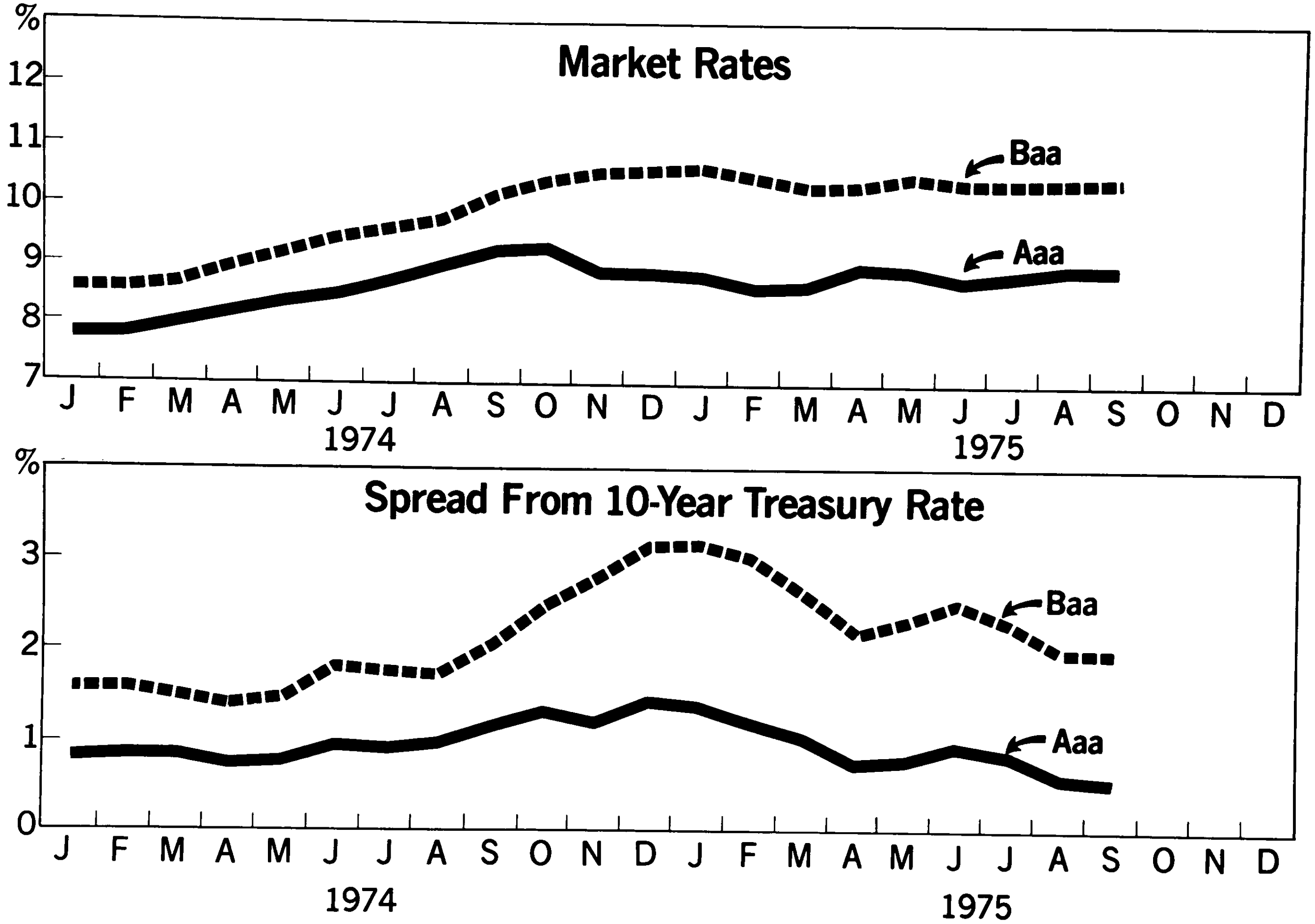
1411

AAA AND BAA CORPORATE RATES



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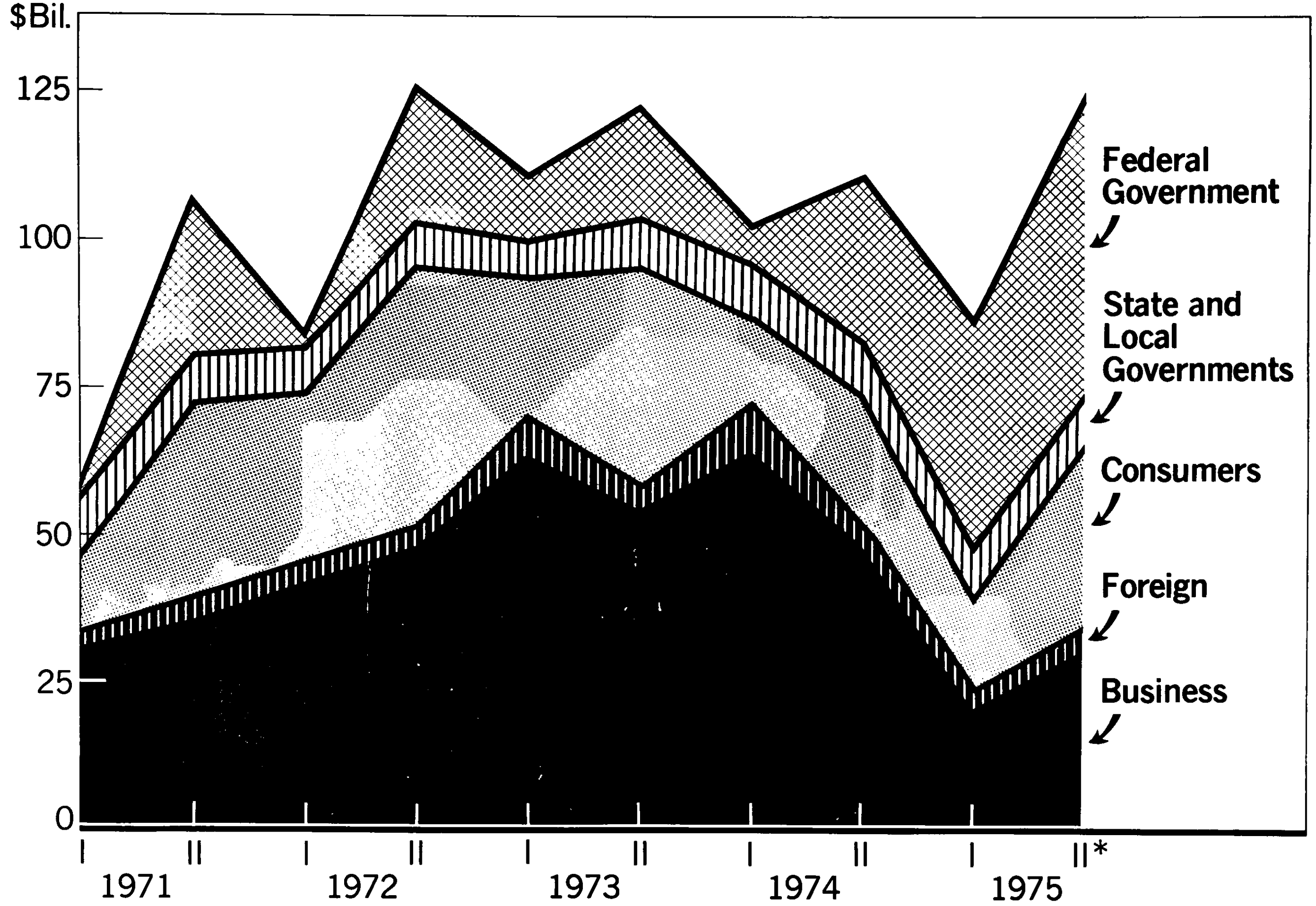
Office of Debt Analysis

October 21, 1975-25

FUNDS RAISED BY BORROWER



* Estimated

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Office of Debt Analysis

October 21, 1975-21

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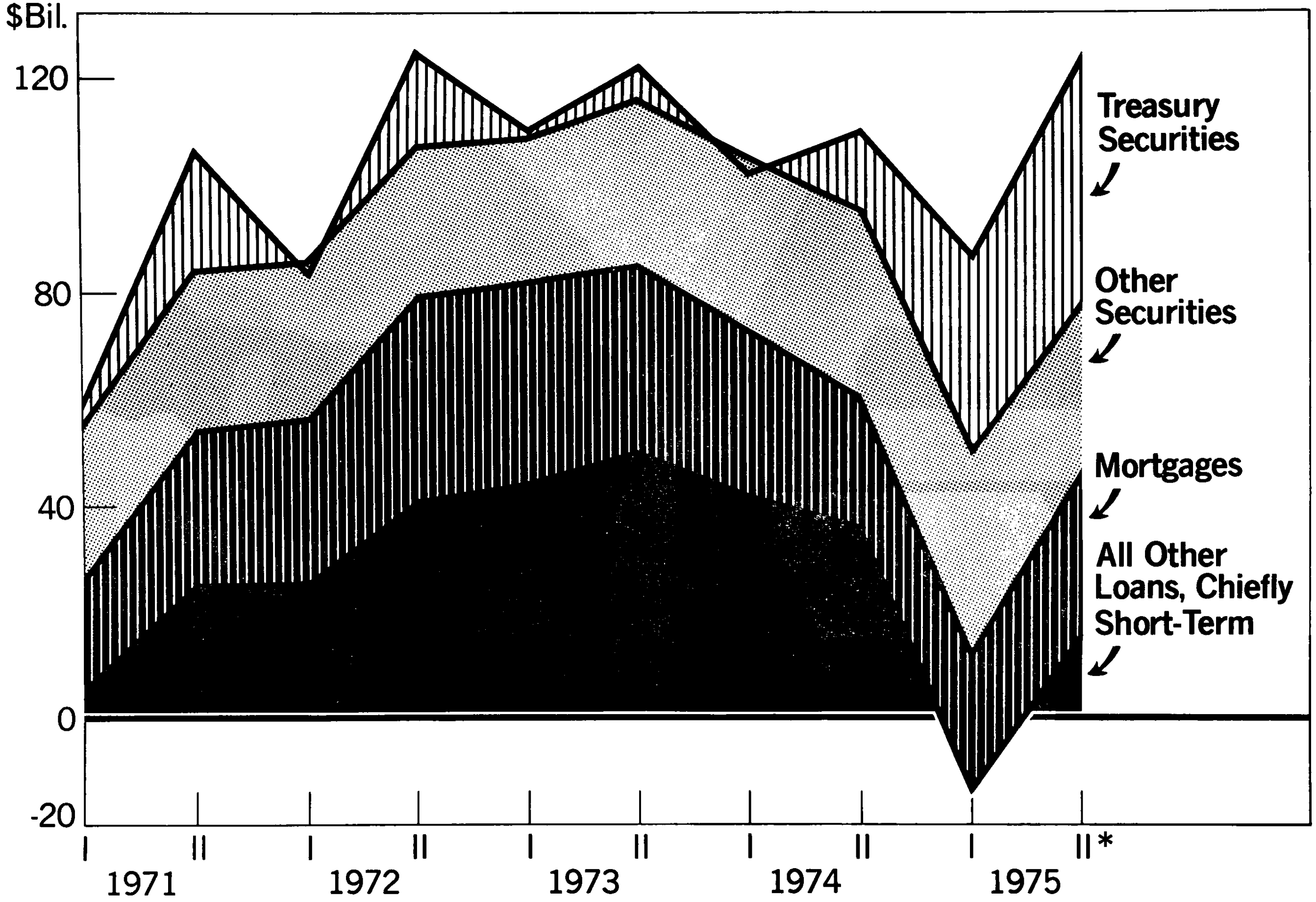
FUNDS RAISED BY CREDIT INSTRUMENT



* Estimated

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Office of Debt Analysis

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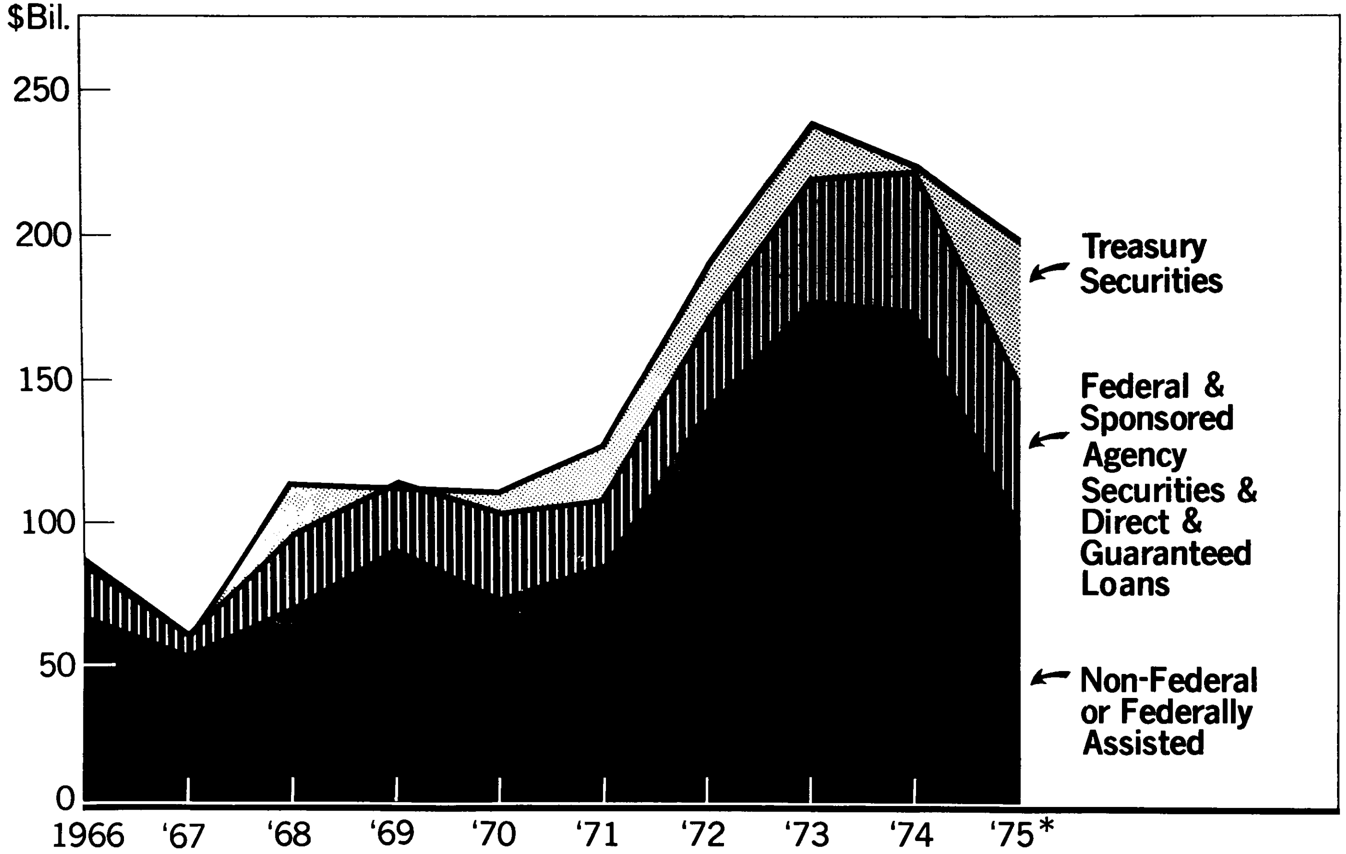
FEDERAL AND FEDERALLY ASSISTED CREDIT vs TOTAL FUNDS RAISED



* Estimated

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Office of Debt Analysis

October 21, 1975-23

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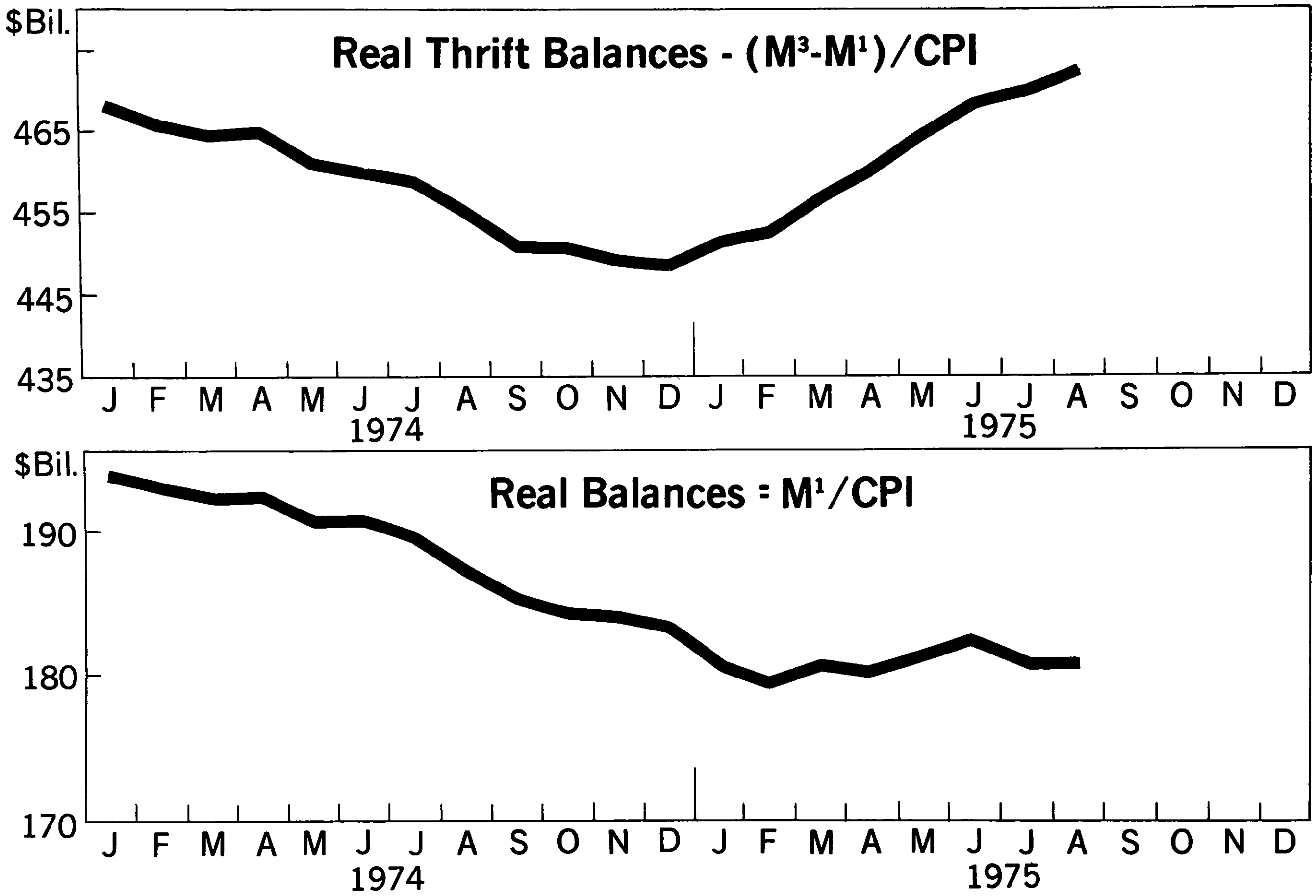
REAL BALANCES AND REAL THRIFT BALANCES



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October 21, 1975-17

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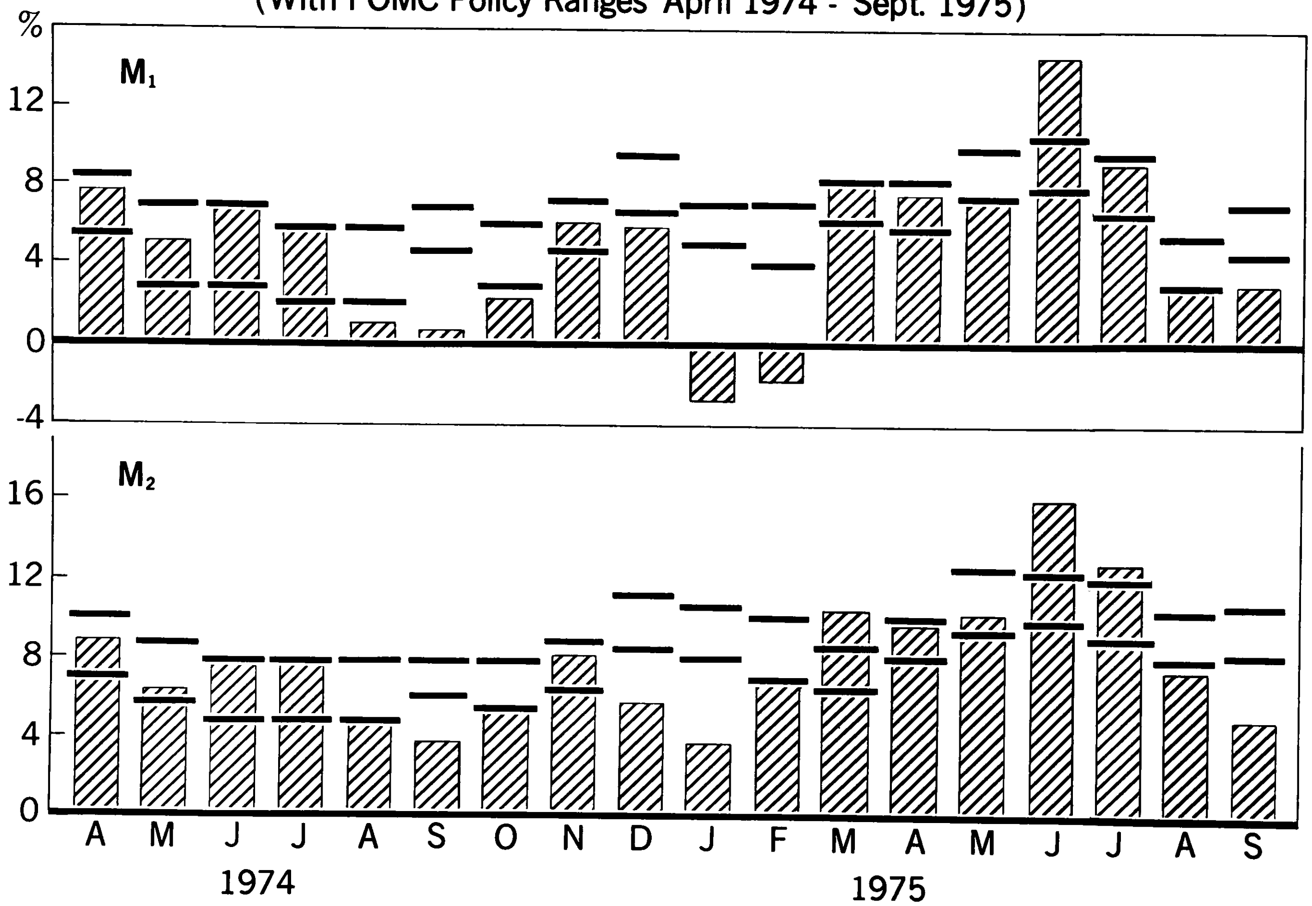
TWO MONTH AVERAGE ANNUAL RATES OF CHANGE IN M_1 AND M_2

(With FOMC Policy Ranges April 1974 - Sept. 1975)



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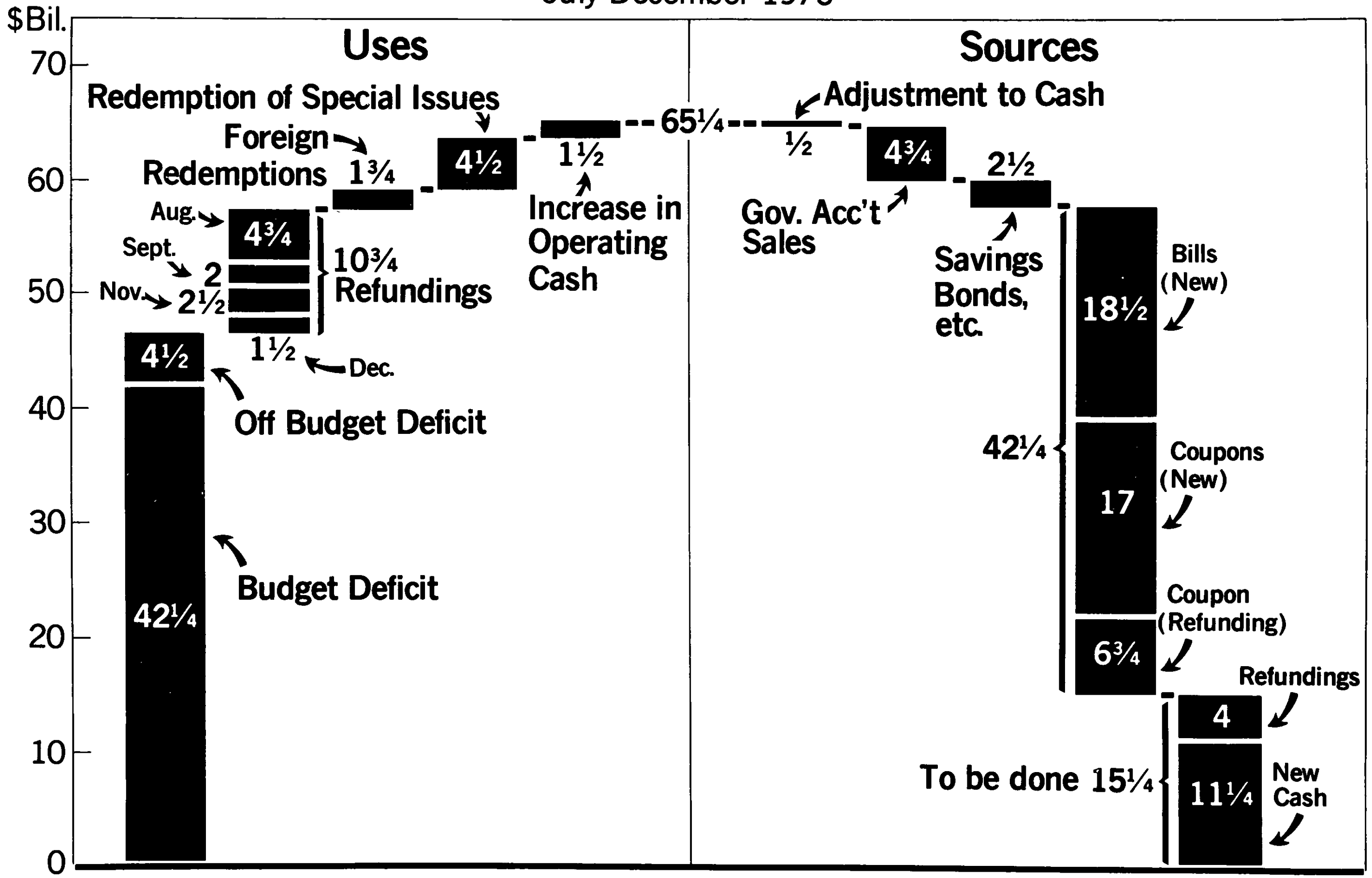
October 21, 1975-11

MEANS OF FINANCING

July-December 1975*



*Assumes $9.0 Billion cash balance on December 31

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Office of Debt Analysis

October 21, 1975-28

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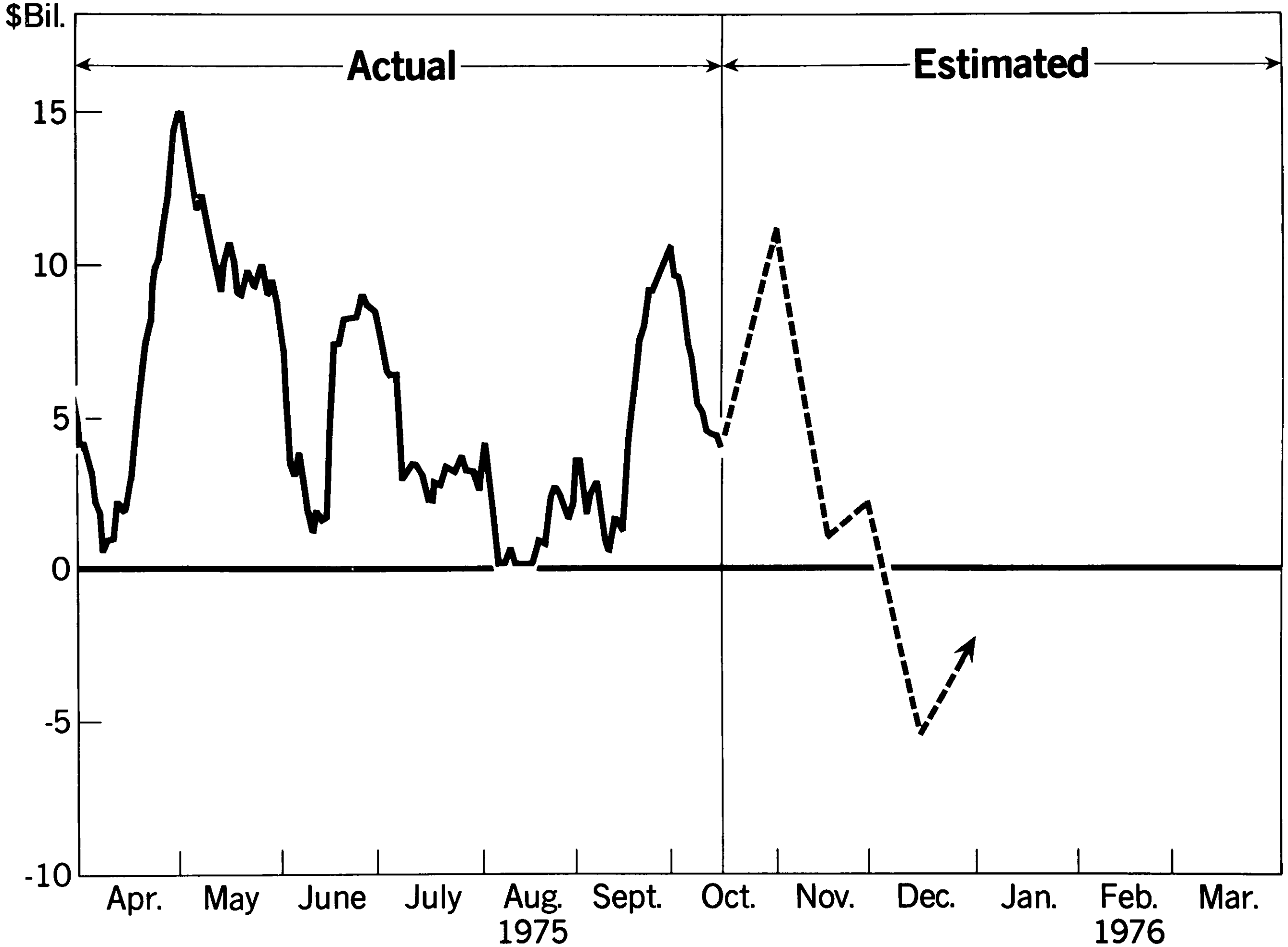
TREASURY OPERATING CASH BALANCE*



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Office of Debt Analysis

* Daily

October 21, 1975-3

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OWNERSHIP OF THE NOVEMBER 15, 1975 MATURITY

(In millions of dollars)

	7% NOTE	PERCENT
Total outstanding	3115	
Federal Reserve Banks and Government Accounts	743	
Total privately held	2372	100
State and local pension funds and life insurance companies	3	*
Fire, casualty, and marine ins., mutual savings banks, savings and loan, and corporate pension funds	115	5
Commercial banks	1229	52
New York reserve city banks	64	3
Chicago reserve city banks	17	1
Other reserve city banks	161	7
Country member banks	533	22
Nonmember banks	454	19
State and local general funds	123	5
Corporations	10	*
Other private holders	892	38

* less than ½ of one percent.

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Office of Debt Analysis

October 21, 1975-30

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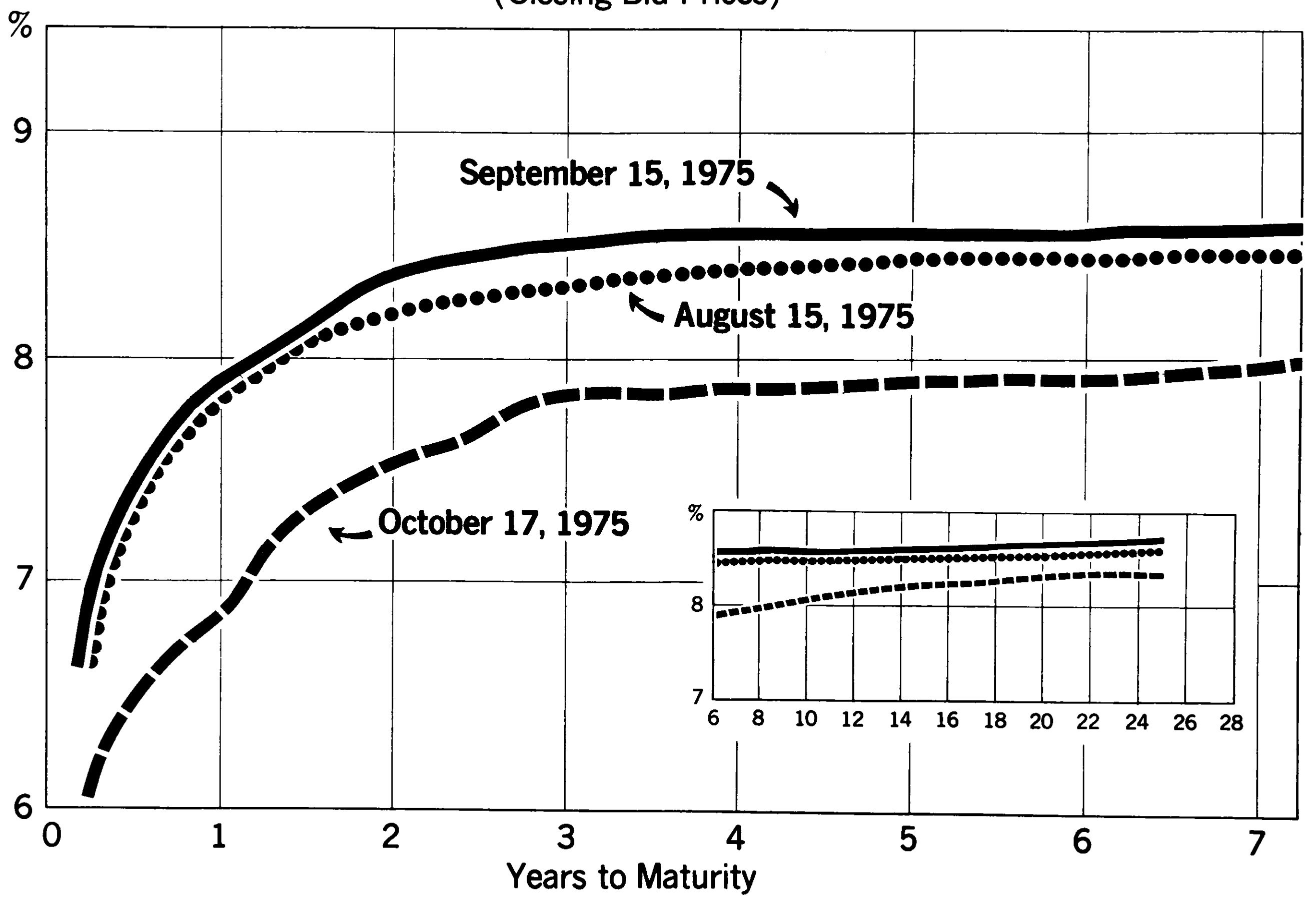
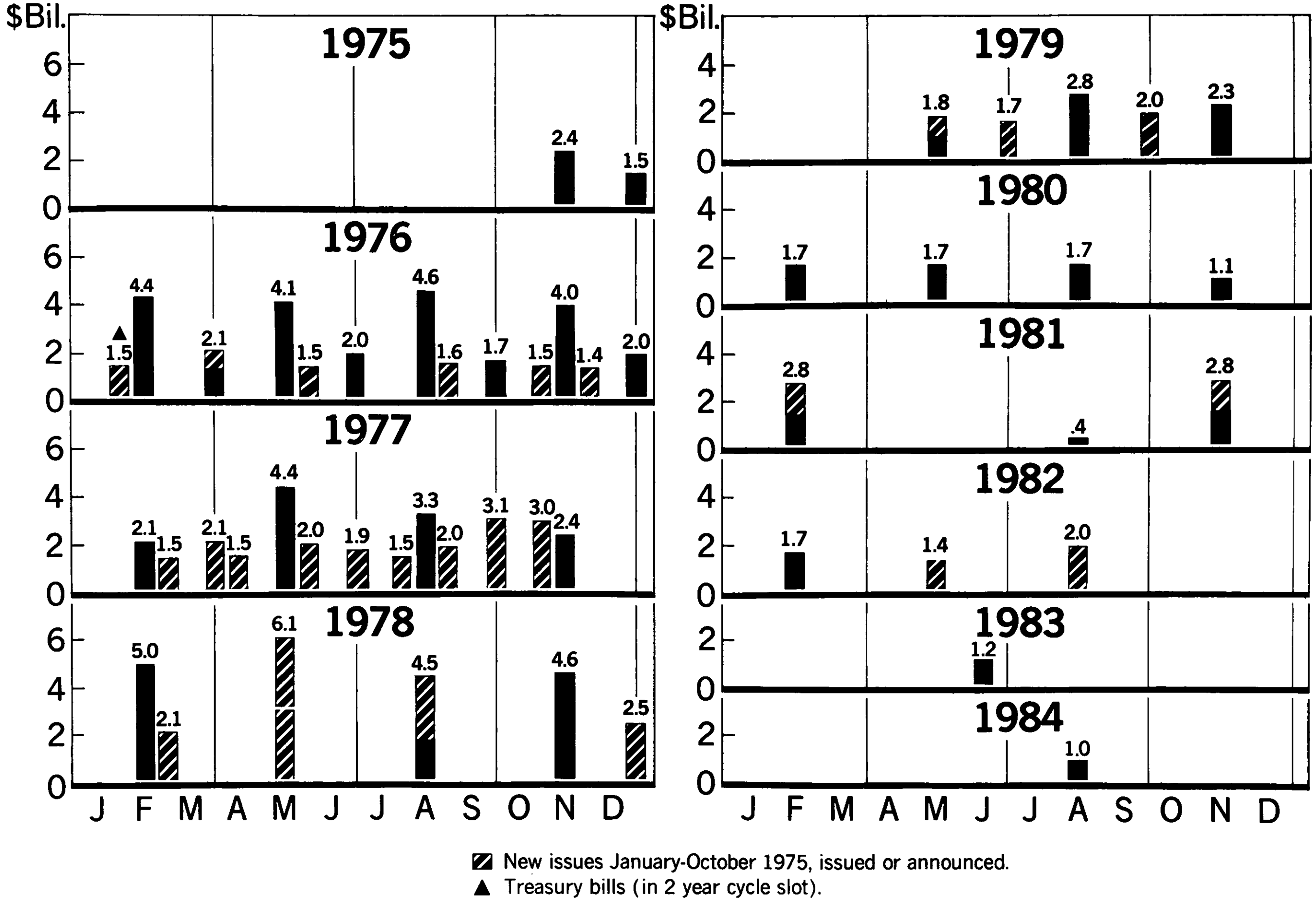
MARKET YIELDS ON GOVERNMENTS

(Closing Bid Prices)



TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills and Exchange Notes



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Office of Debt Analysis

October 21, 1975-6

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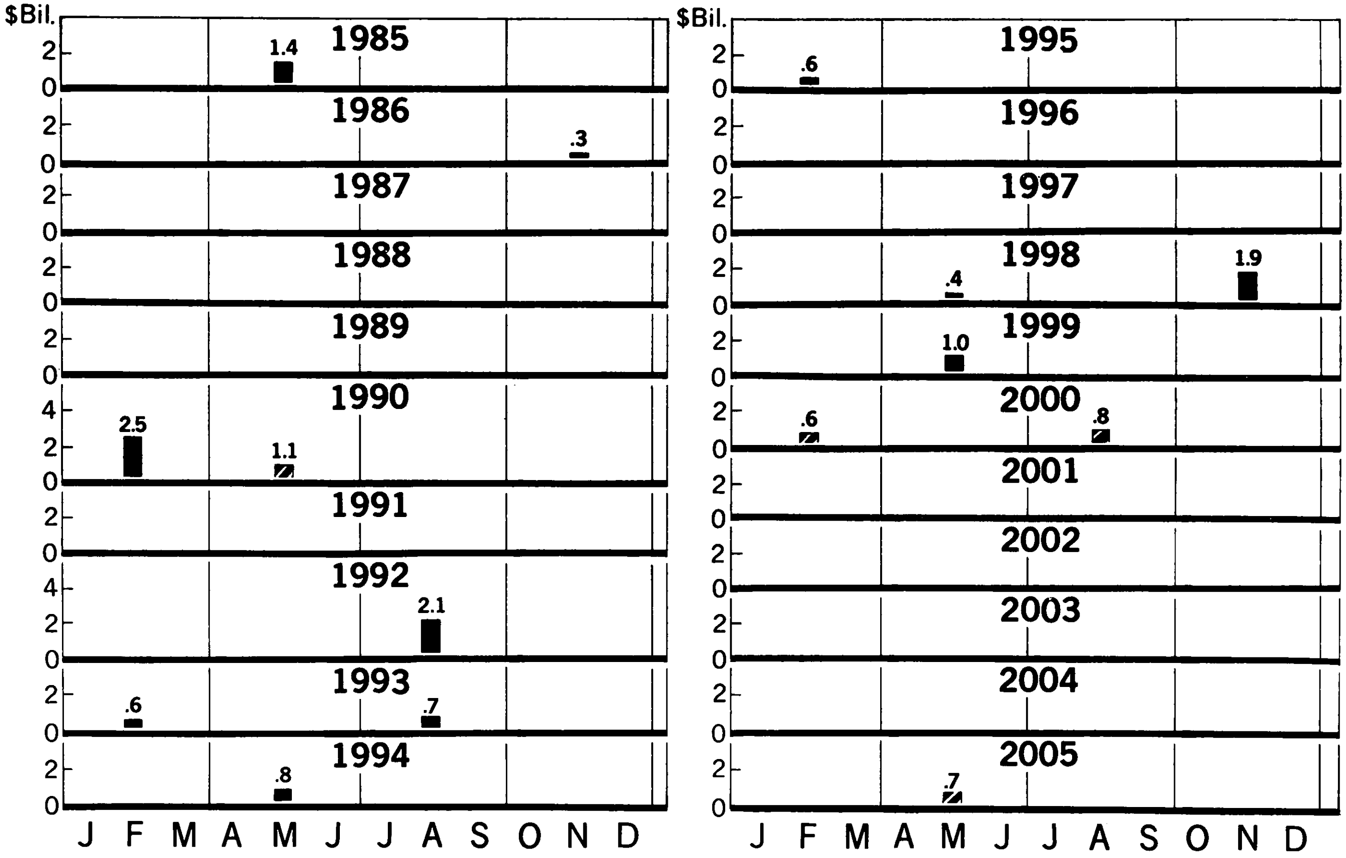
TREASURY MARKETABLE MATURITIES

Privately Held, Excluding Bills and Exchange Notes



New issues January-October 1975, issued or announced.

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Office of Debt Analysis

October 21, 1975-7

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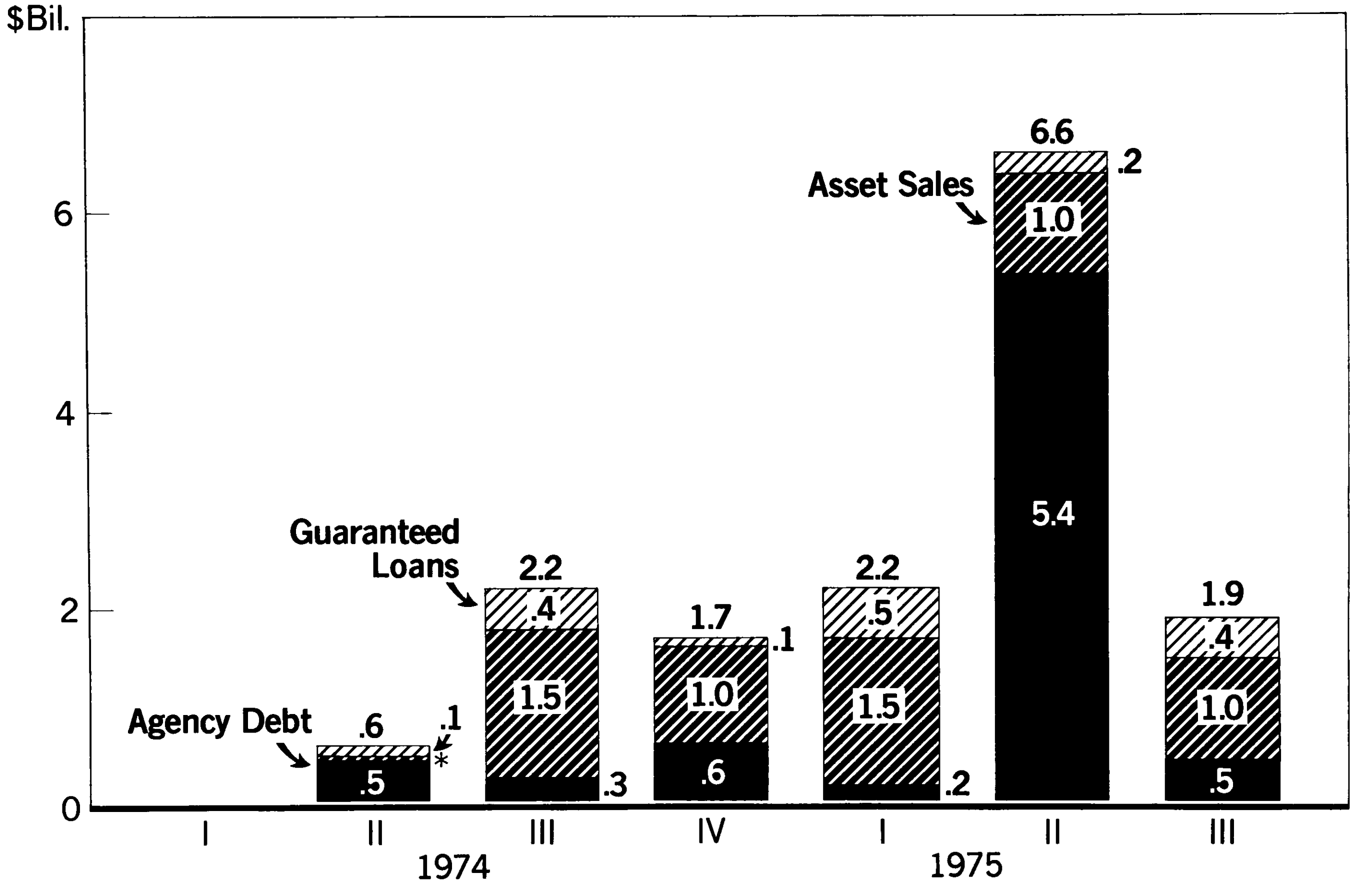
QUARTERLY INCREASES IN FEDERAL FINANCING BANK LENDING



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October 21, 1975-34

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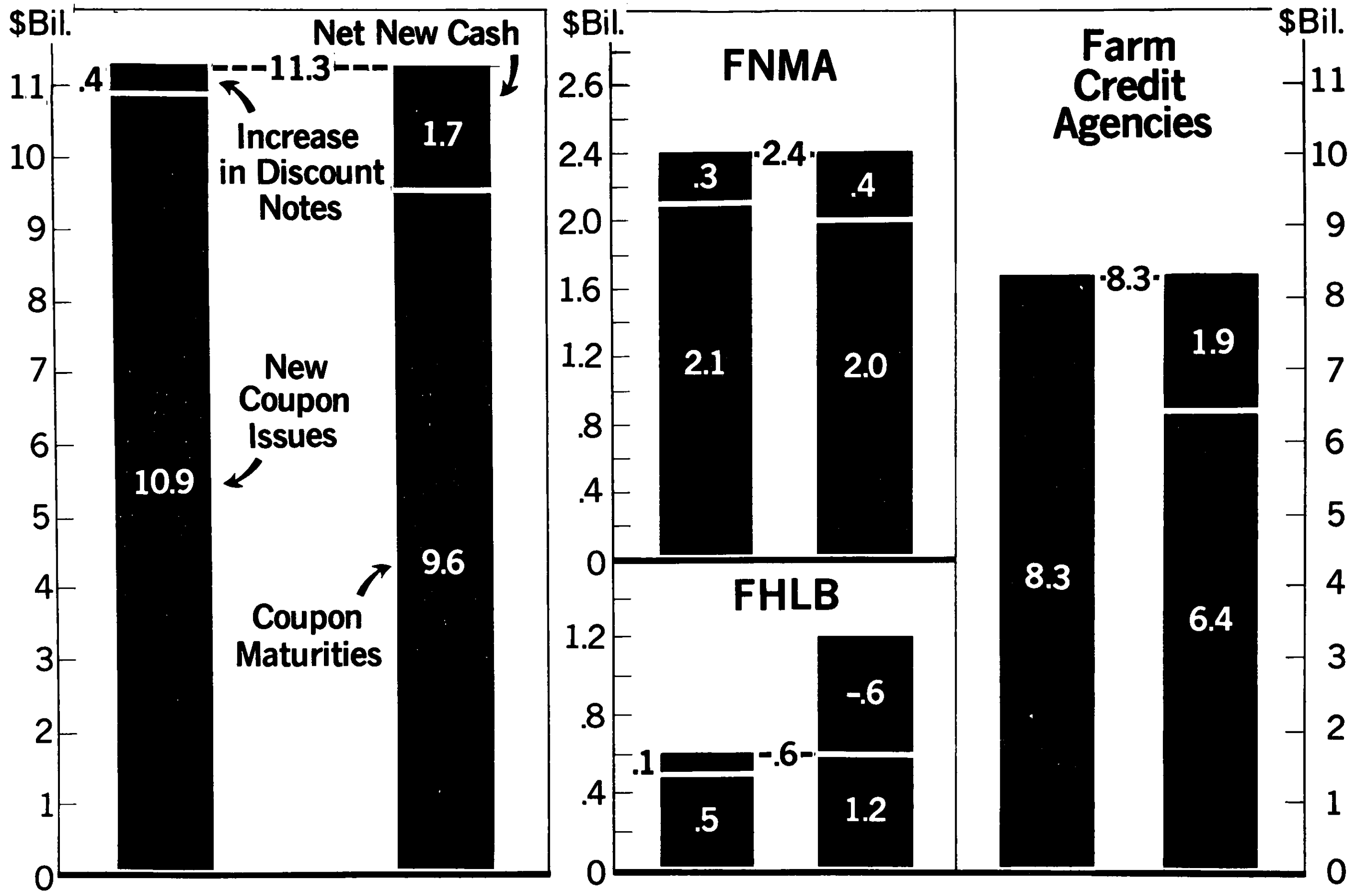
AGENCY FINANCE, JULY-OCTOBER 1975

Privately Held



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October 21, 1975-10

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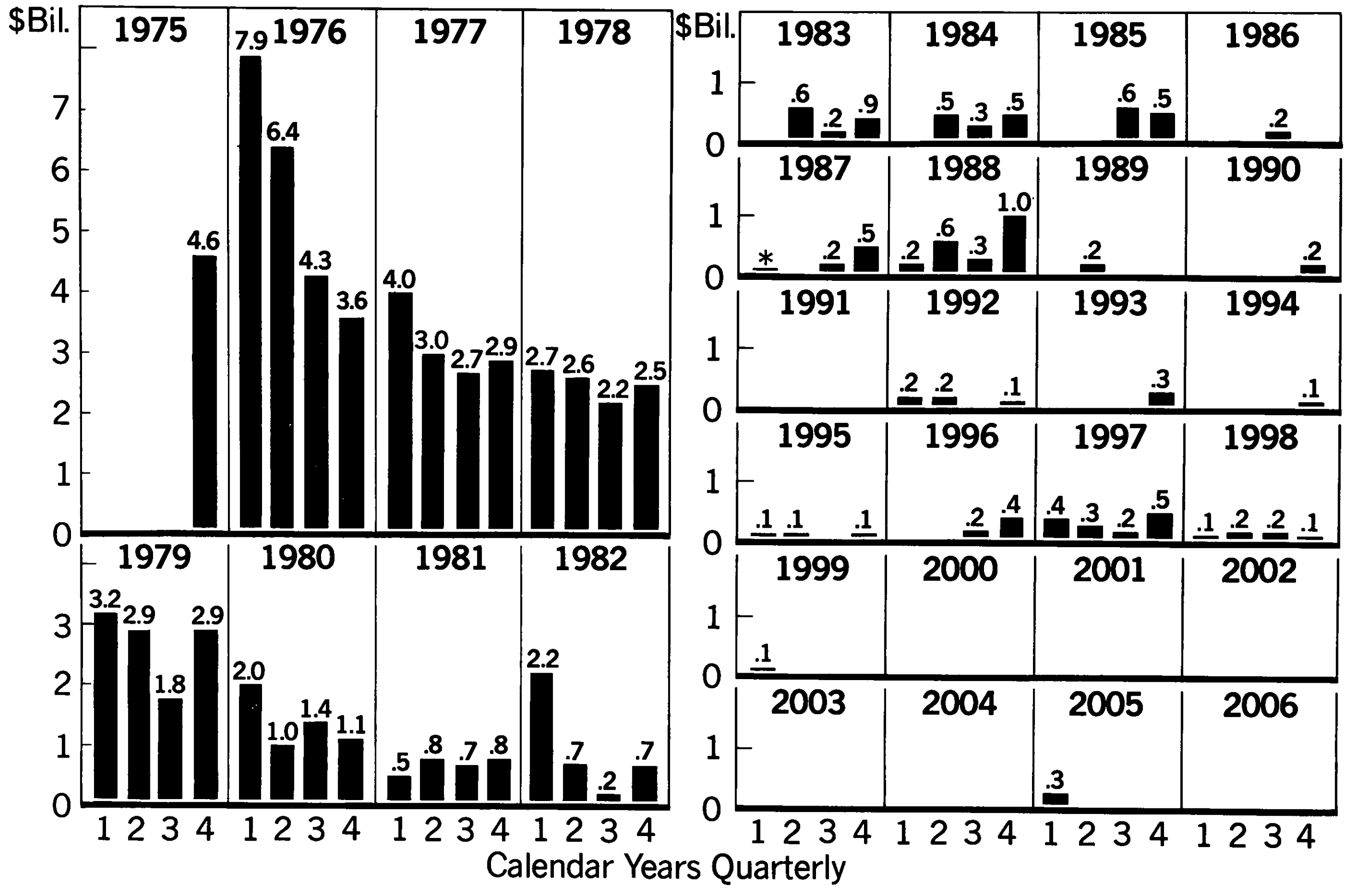
AGENCY MATURITIES 1/

Privately Held



1/ Issued and announced through October 21, 1975

* Less than $50 million.

Office of the Secretary of the Treasury
Office of Debt Analysis

October 21, 1975-9

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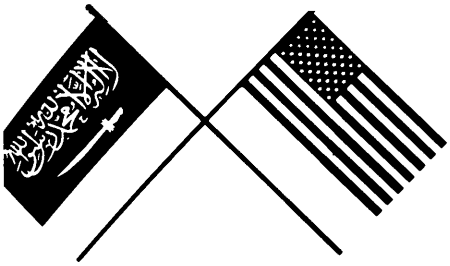

United States - Saudi Arabian
Joint Commission
on Economic Cooperation

Summary of Saudi Arabian Five Year Development Plan

(1975-1980)

1158

October 23, 1975

FOREWARD

As part of its continuing responsibility for coordinating the Joint Economic Cooperation Commission with Saudi Arabia, the Treasury Department is publishing this condensation of the 663-page summary of the Second Development Plan for the Kingdom of Saudi Arabia prepared by the Central Planning Organization. We hope this condensation will serve to facilitate further active participation by private U.S. firms and institutions in the Saudi economic development program -- a program which contemplates spending in excess of $140 billion over the next five years.

The new Saudi Development Plan presents substantial new possibilities for beneficial cooperation in Saudi industrialization and modernization efforts in a wide variety of fields ranging from agriculture development and manpower training to health care and resource development. We believe the Plan will contribute to a greater understanding of the country's aspirations and will assist U. S. firms in identifying U. S. export potential to Saudi Arabia.

The complete text of the 663-page summary of the Saudi Development Plan will shortly be made available to the American public at nominal cost through the U.S. Commerce Department. This condensation of the Plan, prepared by the Treasury Department's Office of Saudi Arabian Affairs, is keyed to the chapters of the Plan.

Gerald L. Parsky
Gerald L. Parsky
Assistant Secretary of the Treasury

EXPLANATORY NOTES

1. Saudi Cabinet Changes. Subsequent to the release of the Plan, the Saudi cabinet has undergone extensive changes. Six new ministries have been created, bringing the total to 22. Following is a complete list of the Saudi ministries. The new ministries are underlined.

PRINCIPAL GOVERNMENT OFFICIALS

SAUDI ARABIA

KING, AND PRIME MINISTER..........Khalid ibn Abd al-Aziz al-Saud

FIRST DEPUTY PRIME MINISTER & CROWN PRINCE.....Fahd ibn Abd al-Aziz al-Saud

SECOND DEPUTY PRIME MINISTER......Abdallah ibn Abd al-Aziz al-Saud

MIN. OF AGRICULTURE & WATER.......Dr. Abd Al-Rahman ibn Abd al-Aziz Al al-Shaykh

MIN. OF COMMERCE..................Dr. Sulaiman Abd al-Aziz al-Sulaim

MIN. OF COMMUNICATIONS............Muhammad Umar Tawfiq

MIN. OF DEFENSE & AVIATION........Sultan ibn Abd al-Aziz al-Saud

MIN. OF EDUCATION.................Dr. Abd Al Aziz Abdallah al-Khuwaiter

MIN. OF FINANCE & NATL. ECONOMY...Muhammad Aba al-Khail

MIN. OF FOREIGN AFFAIRS...........Saud ibn Faisal ibn Abd al-Aziz al-Saud

MIN. OF HEALTH....................Dr. Hussain Abd al-Qadir al-Jazairi

<u>MIN. OF HIGHER EDUCATION..........Hasan ibn Abdallah Al al-Shaykh</u>

<u>MIN. OF INDUSTRY & ELECTRICITY....Dr. Ghazi Abd al-Rahman al-Qusaibi</u>

MIN. OF INFORMATION...............Dr. Muhammad Abdu Yamani

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MIN. OF INTERIOR................Nayif ibn Abd al-Aziz al-Saud

MIN. OF JUSTICE.................Ibrahim ibn Muhammad bin Ibrahim Al al-Shaykh

MIN. OF LABOR & SOCIAL AFFAIRS..Ibrahim ibn Abdallah al-Anqari

MIN. OF MUNICIPAL AND RURAL AFFAIRS.....Majid ibn Abd al-Aziz al-Saud

MIN. OF PETROLEUM & MINERAL RESOURCES.....Ahmad Zaki Yamani

MIN. OF PILGRIMATE AFFAIRS & RELIGIOUS TRUSTS....Abd al-Wahhab Abd al-Wasi

MIN. OF PLANNING................Hisham Muhi al-Din Nazir

MIN. OF POSTS, TELEGRAPH,& TELEPHONE......Dr. Alawi Darwish Kayyal

MIN. OF PUBLIC WORKS & HOUSING..Mutib ibn Abd al-Aziz al-Saud

MINISTER OF STATE (Without Portfolio)...............Muhammad Ibrahim Masud

MINISTER OF STATE (Without Portfolio)...............Dr. Abdallah Muhammad al-Umran

MINISTER OF STATE (Without Portfolio)...............Dr. Muhammad Abd al-Latif al-Mulham

2. Exchange Rate. Through the Treasury summary, the exchange rate used in converting Saudi Rials to U.S. dollars was 3.52 rials per dollar. All statistical data including projections is presented in current prices unless otherwise stated.

3. Fiscal and Calendar Years. The Saudi fiscal year is the basic unit of time used throughout the Plan. The first Plan covered the period 1390-1391 through 1394-1395. This is equivalent to our September 2, 1970 to July 8, 1975. The second five year Plan covers the five Saudi fiscal years 1395-96 through 1399-1400. This is equivalent to our July 9, 1975 to May 14, 1980.

The major exception to the use of the Saudi fiscal year in the Plan is that Gregorian years are used for petroleum production and sales, international airline operations and telecommunications. Following are the Saudi fiscal year and Gregorian year equivalents:

Saudi Fiscal Year	Starts on (Gregorian calendar)
1390-91	September 2, 1970
91-92	August 22, 1971
92-93	August 10, 1972
93-94	July 30, 1973
94-95	July 19, 1974
95-96	July 9, 1975
96-97	June 28, 1976
97-98	June 16, 1977
98-99	June 6, 1978
99-1400	May 26, 1979

CHAPTER I. DEVELOPMENT GOALS (PP. 1-4)

The Development Plan states that ... "planning implies the efficient use of a country's resources in accordance with certain rationally-determined priorities for the attainment of nationally-cherished goals. Since goals are culturally, historically and politically oriented, a country's development plan essentially reflects its fundamental values and principles.

"The fundamental values and principles which guide Saudi Arabia's balanced development are expressed in the following goals:

-- Maintain the religious and moral values of Islam.

-- Assure the defense and internal security of the Kingdom.

-- Maintain a high rate of economic growth by developing economic resources, maximizing earnings from oil over the long-term, and conserving depletable resources.

-- Reduce economic dependence on export of crude oil.

-- Develop human resources by education, training, and raising standards of health.

-- Increase the well-being of all groups within the society and foster social stability under circumstances of rapid social change.

-- Develop the physical infrastructure to support achievement of the above goals."

"The Development Plan provides for further advance toward the social and economic goals listed above while maintaining the religious and moral values of Islam. These goals are elaborated and placed within the context of Saudi Arabia's internal policies."

HIGH RATE OF ECONOMIC GROWTH

The Government recognizes that to achieve the goal of a high rate of economic growth and to reduce the country's dependence on oil requires diversifying the economy. The Plan states this will be done by encouraging expansion in agriculture, industry, and mining, with particular emphasis on petrochemical and mining industries. The expansion of the private sector will be encouraged by subsidies and various other incentives.

DEVELOPMENT OF HUMAN RESOURCES

All the people of Saudi Arabia will have access to free educational and training facilities at all levels, and health services will be provided throughout the Kingdom. Free medical service will become more readily available throughout the Kingdom.

The Plan aims to create an economic climate which will enable the individual to find gainful employment in accordance with his capabilities, to depend on himself in earning his living, and to contribute to the development of Saudi Arabia.

SOCIAL WELL-BEING

Social services will be developed to ensure that every group and individual enjoys an adequate, dignified minimum standard of living; levels above this minimum will continue to be the reward of individual effort and achievement.

Towards realizing this goal, the Government intends to expand and intensify its programs by -

-- Making essential goods, especially staple food items, available at stable and reasonable prices, subsidizing prices if necessary;

-- Making it possible for every Saudi family to own its own house by arranging on easy terms suitable housing constructed at Government initiative for those with limited incomes, and encouraging construction by others through granting interest free loans with some subsidy;

-- Expanding social security and other benefits;

-- Making credit available free of interest to those having temporary financial difficulties and limited incomes.

PHYSICAL INFRASTRUCTURE

The Government will continue to expand and improve the physical infrastructure: -- transportation, communications, municipalities, and housing.

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ECONOMIC FREEDOM WITHIN SOCIAL WELFARE

The economic system of Saudi Arabia is based on the principles of free economy where a substantial part of the production and distribution of goods and services is left to individuals and groups enjoying freedom in their dealings and transactions. While the Government of Saudi Arabia will uphold the market system and encourage the private sector to play a fundamental role in the accelerated growth and development of the country, it will take all necessary measures to make the market system conform to the larger social interests of the country.

CHAPTER II. THE ECONOMY AND SOCIETY OF TODAY (PP 4-52)

The most important developments over the past five years have been increased oil revenues and the acquisition of an increasing share of the ownership of the Kingdom's oil production industry. During the period of the first plan, it became evident that lack of financial resources should no longer be considered a constraint on development. Progress under the first plan has been mixed. Some targets were met or exceeded while others were not met, in particular, those for the hydrocarbon based industry.

Some of the highlights of the First Plan period were: Crude petroleum production increased to a level of 8.5 million barrels per day in 1974. Licenses for the exploration and development of copper, lead, zinc, nickel, gold and silver were issued to private mining companies. The electricity system was improved with the establishment of the Electrical Services Department to plan and coordinate its development. Total generating capacity is 1,256 megawatts and the system is serving an estimated 2.2 million people. Expansion of manufacturing was achieved in fields such as cement where production more than doubled and all sectors within commerce--trade, transport, and storage, finance, real estate, and business services grew rapidly.

A. Growth in the Labor Force

The main features of manpower development were a growth in the labor force of about 20 percent from 1,328,000 in 1970 to 1,600,000 people in 1975. The growth rate for the Saudis was

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lower than for non-Saudis; 3.7 percent compared with 4.2 percent. However, Saudis still comprise about 80 percent of the labor force in 1975. A census was completed and the results are expected within the year. It is estimated that there will be an increase in foreign workers of 500,000 over the plan period.

B. Growth of the Economy

The economy grew very rapidly and at an increasing pace in the First Plan period. The GDP growth rate in constant prices increased from 13.1 percent in 1970 to an average annual compound rate of 20.5 percent during the first three years of the development plan. Real national income over the First Plan period increased at a rate of 44.8% per annum. The combined real growth of the private non-oil sector leapt from 3.3 percent in 1970 to an annual rate of 15.6 percent in 1975. Thus, despite the increasing relative dominance of oil in the economy, the non-oil sector growth rate was higher by the end of the first plan. GDP per capita increased from about \$900 in 1970 to \$6800 in 1975. (See Table III, 5 on pages 10-11.)

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The education system has established a strong base from which to move toward further development. Almost 800,000 students are enrolled full-time in public schools and another 12,000 are attending colleges and universities. This achievement has required an unprecedented expansion of physical facilities.

Information services were also developed rapidly with two radio complexes in Riyadh and Jidda which broadcast Arabic programs for 20 hours daily. A contract has recently been signed with the Government of France for the installation of a SECAM color television system throughout the Kingdom. A news-agency service was established in 1970 for collection and dissemination of domestic and foreign news.

The health system has expanded steadily in quantative terms in the past five years despite great difficulties in procuring the necessary manpower. Within the Ministry of Health, the number of hospitals has increased from 47 to 62; an addition of 569 beds. Among the measures taken to ameliorate the quality of health services was the specification for a series of standardized designs for hospital construction.

Social assistance has been expanded through the Social Security Affairs programs. The number of institutions run by the Social Welfare Department increased from 15 to 31 between 1970 and 1975. These institutions offer care to the aged, orphans, foundlings, delinquent children and others in need.

The major objective for the transportation sector in the first plan was to provide the basic transport network needed to support economic and social development. There are now more than 11,000 kms. of paved roads and a large construction

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program is now underway. There are more than 200,000 motor vehicles in the Kingdom and this number is rapidly expanding. The major ports of Jidda and Dammam have been expanded. Jidda now has ten new and two old berths with seven more approved, and Dammam seven new, two old, and seven under construction.

National telecommunications system has not kept pace with the growth in demand for services. At the end of the First Plan period, there were 93,600 lines of automatic telephone exchange equipment in ten cities; completion of 23 telephone office switch projects in the next three years will provide an additional 105,200 lines. Implementation of the intra-Kingdom telecommunications network has fallen behind schedule.

Housing construction has not kept pace with urban growth. Approximately 75,000 standard or better urban dwellings were constructed during the First Plan period compared with an estimated need for new and replacement units of 154,000. Lack of construction and mortgage financing and rising costs of labor, land, and materials have been largely responsible for the slow growth in housing supply. The Real Estate Development Fund was established in Saudi fiscal year 1394 for the purpose of making loans to industries and firms for housing construction and residential and commercial development.

C. Foreign Trade and Balance of Payments

Oil exports accounted for the overwhelming proportion of the Kingdom's foreign exchange receipts in the First Plan period. Rapid increases in foreign prices and the rapid acceleration of economic activity within Saudi Arabia have resulted in a growth of commodity imports at a prodigious rate. If the Kingdom's port capacity and materials handling capabilities permitted, the rate of expansion could be higher.

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Imports of goods and services combined are estimated as follows (U.S. $ millions in current prices, excluding factor income payments to abroad):

	1969-70	1970-71	1971-72	1972-73	1973-74	1974-75
Total	1,417.4	1,478.6	1,790.5	2,349.9	3,524.9	5,287.4
Percentage Increase	-	4.2	21.2	31.2	50.0	50.0

D. Fiscal and Monetary Management

The principal objective of fiscal management in the first Plan was to finance development while maintaining a stable and open economy. Other objectives were the following:

1. Maintain foreign reserves equal to the value of imports for one and a half years.

2. Obtaining a high rate of economic growth without adverse inflationary effects.

3. Encouraging private enterprise.

Various measures of economic and financial activities have increased very rapidly. For example, the money supply increased 18 times over the first Plan, government revenues increased 12 times. In the attempt to encourage a high rate of growth without adverse inflationary effects, it has not been possible to avoid widespread price increases. Because of its dependence on imports and the domestic shortage in housing and labor, Saudi Arabia experienced a high degree of inflation in the past two years (between 15 and 20% annually). The steps taken to reduce or offset the rise in living costs include a number of import subsidies, and reduced electrical rates and customs duties.

Table III-5

GROSS DOMESTIC PRODUCT: 1974-1975 AND 1979-1980 IN CONSTANT 1974-1975 PRICES

($ Millions)

	Estimated 1974-75	Average Annual Growth Rate	Projected 1979-80
Private			
Agriculture	400.2	4.0	487.0
Crude petroleum and natural gas	34,440.9	10.0[a]	55,454.4
Other mining and quarrying	49.8	15.0	100.1
Petroleum refining	2,129.1	5.0[a]	2,717.4
Other manufacturing	256.1	14.0	493.2
Electricity, gas, water, and sanitary services	94.6	15.0	190.4
Construction	1,239.2	15.0	2,492.5
Wholesale and retail trade, restaurants, and hotels	732.9	15.0	1,474.2
Transport, communications, and storage	1,033.4	15.0	2,078.7
Ownership of dwellings	464.9	6.0	622.2
Finance, insurance, real estate and other business services	254.3	15.0	511.5
Community, social, and personal services	148.4	14.0	285.7
Less imputed bank service charge	(17.8)	-	(17.8)
Total private	41,226.4	10.2	66,889.5

	Estimated 1974-75	Average Annual Growth Rate	Projected 1979-80
Government			
Public Administration	366.8	10.0	590.8
Education	291.7	13.8	556.8
Health	72.8	15.0	146.5
Subtotal	731.3	12.1	1,294.1
Defense	291.3	15.0	585.9
Total government	1,022.6	12.9	1,880.0
GROSS DOMESTIC PRODUCT (excluding import duties)	42.249.2	10.2	68,770.0
Import duties	23.4	15.2	47.2
GDP (at market prices)	42,272.6	10.2	68,817.2
Summary			
Private sector			
Oil	36,570.0	9.7	58,171.8
Non-oil	4,656.3	13.4	8,718.0
Government sector	1,022.7	12.9	1,880.1
Total Non-oil	5,679.1	13.3	10,598.1

a These rates are notional only (to fill in the GDP picture), since oil production policies are not part of the Development Plan but are determined by the Supreme Advisory Council for Petroleum and Minerals.

Source: Central Planning Organization.

Note: Column totals may not add due to rounding.

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With the large increase in revenues, the Government has taken a number of steps to assist other nations in fulfilling their development aspirations. The actions include increasing Saudi Arabia's participation in the International Monetary Fund, making loans and grants, and giving direct technical assistance in foreign development projects. For further details see Ministry of Finance and National Economy Publication, "The Government Credit Programs in the Kingdom of Saudi Arabia and the Regional and International Companies and Corporations Contributed to by the Kingdom of Saudi Arabia." Some of the major institutions established to handle such programs are:

--The Saudi Arabian Development Fund

--Islamic Development Bank (being established)

--Arab Bank for Economic Development in Africa

--The Arab Company for Investments

--The Arab Fund for Economic and Social Development

--Arab Company for Petroleum Investments (being established)

--The Arab Marine Company for Petroleum Transport

--The Arab Company for Building and Repairing Vehicles

--The Egyptian Suez Gulf Pipeline Company

--Saudi-Egyptian Company for Industrial Investments (being established)

--Saudi-Egyptian Company for Reconstruction (being established)

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CHAPTER III. THE ECONOMY AND SOCIETY OF TOMORROW (PP 53-99)

The national goals to be pursued within the record Development Plan have been outlined in the last chapter. Details of the sectoral plans for achieving these objectives lie ahead in Chapters IV through VIII. This chapter presents the strategies for attaining the plan objectives, and forecasts the expected growth of the economy.

A. Development Strategy

The development strategy consists of three key elements: (1) diversification of the economic base through emphasis on increasing agricultural and industrial production; (2) rapid development of the Kingdom's manpower resources; and (3) development of the economic regions of the country by a wide distribution of productive investment and social programs applied in accordance with need. The three elements are aimed at economic self-sufficiency, raising the productivity of the labor force, and distribution of the wealth.

Economic self-sufficiency will be striven for by making large investments in industrial ventures based on natural gas and mineral resources, encouraging individual and joint investment in other industries by special incentives, by providing credit and support services and infrastructure. Agriculture will be stimulated by government research activities, credit and input subsidies, and expansion of productive land.

Rapid development of manpower resources is essential for all aspects of the Kingdom's progress. Features of this development include increasing the number of both Saudis and non-Saudis in the labor force, raising the productivity of the labor force by education and training, and creating a productive work environment; and shifting manpower out of the agricultural sector into other sectors with expanding opportunities for employment at higher levels of productivity and income.

The development of regional economic resources and the provision of social services in accordance with need are intended to distribute the wealth, at present generated by the Kingdom's oil, to all sectors of the population.

B. Growth of the Labor Force

The projected increase of the Saudi labor force over the period 1975-1980 will be about 232,000, or an annual rate of 3.4 percent. The non-Saudi segment of the labor force is expected to grow more rapidly reaching 812,600 by 1980, a net increase of 498,600 over the plan period. Table III-2 indicates the projected increase in employment by economic activities.

C. Growth of the Economy

The projected growth of the economy in real terms (value added in constant prices) over the period of the Plan is shown in Table III-5 (pp. 10-11). The projected labor demand by economic activity is shown in Figure III-2 below. Also, the increase in value added in the first and second Plans is shown in Figure III-5 below.

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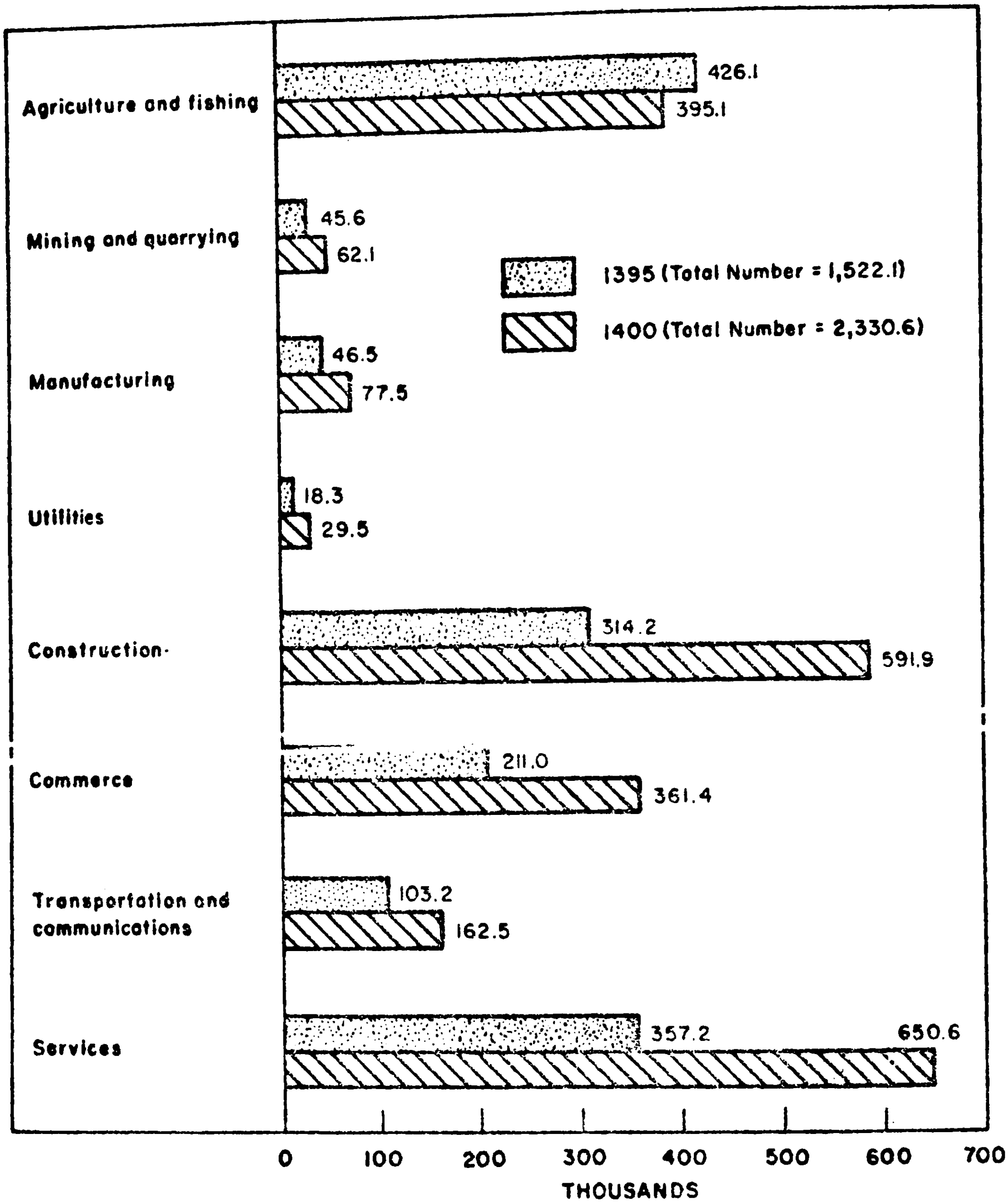

Figure III-2
PRESENT EMPLOYMENT VERSUS PROJECTED LABOR DEMAND BY ECONOMIC ACTIVITY

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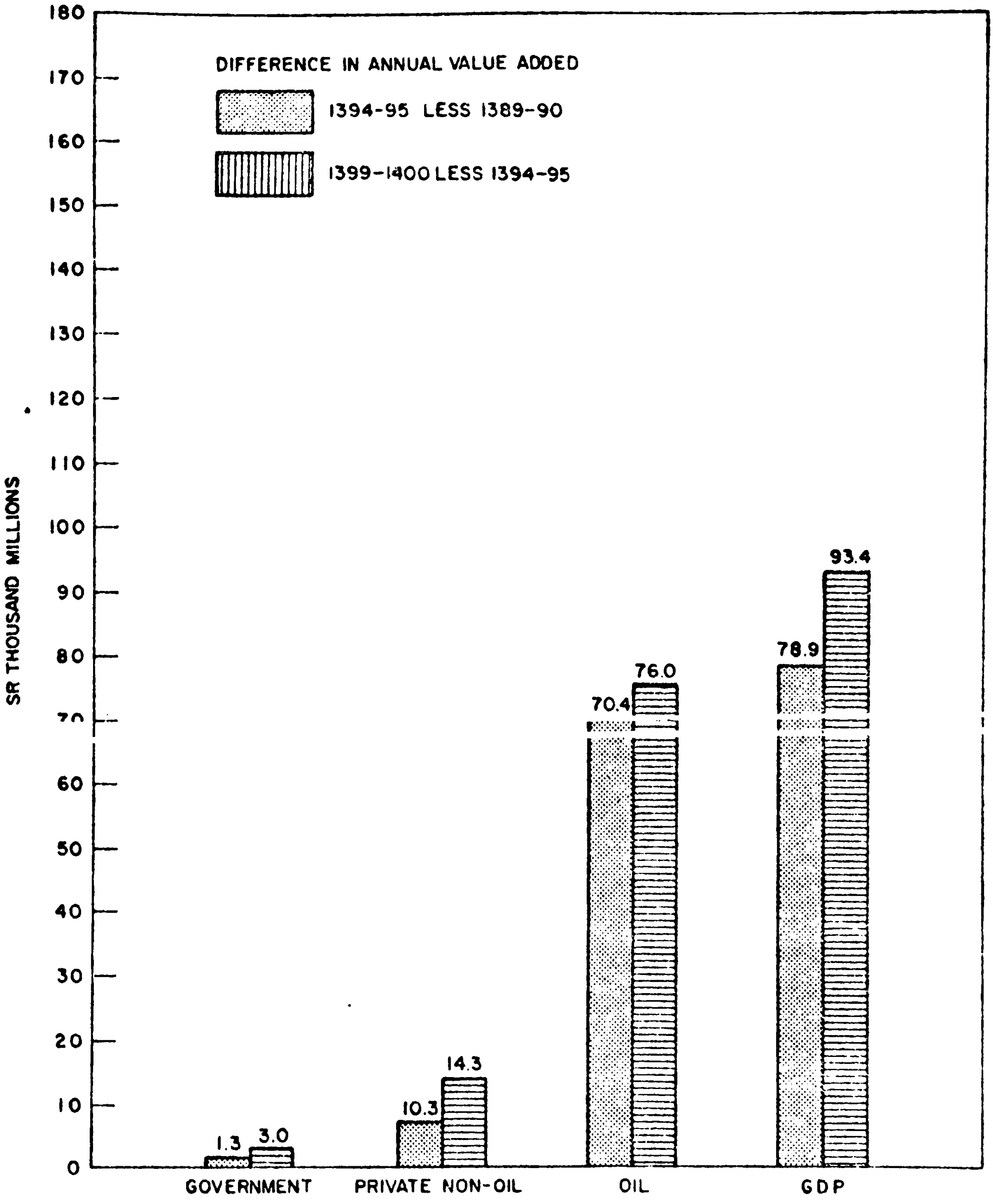

Figure III-5

INCREASE IN VALUE ADDED, FIRST PLAN
COMPARED WITH SECOND PLAN

(Constant 1974-75 Prices)

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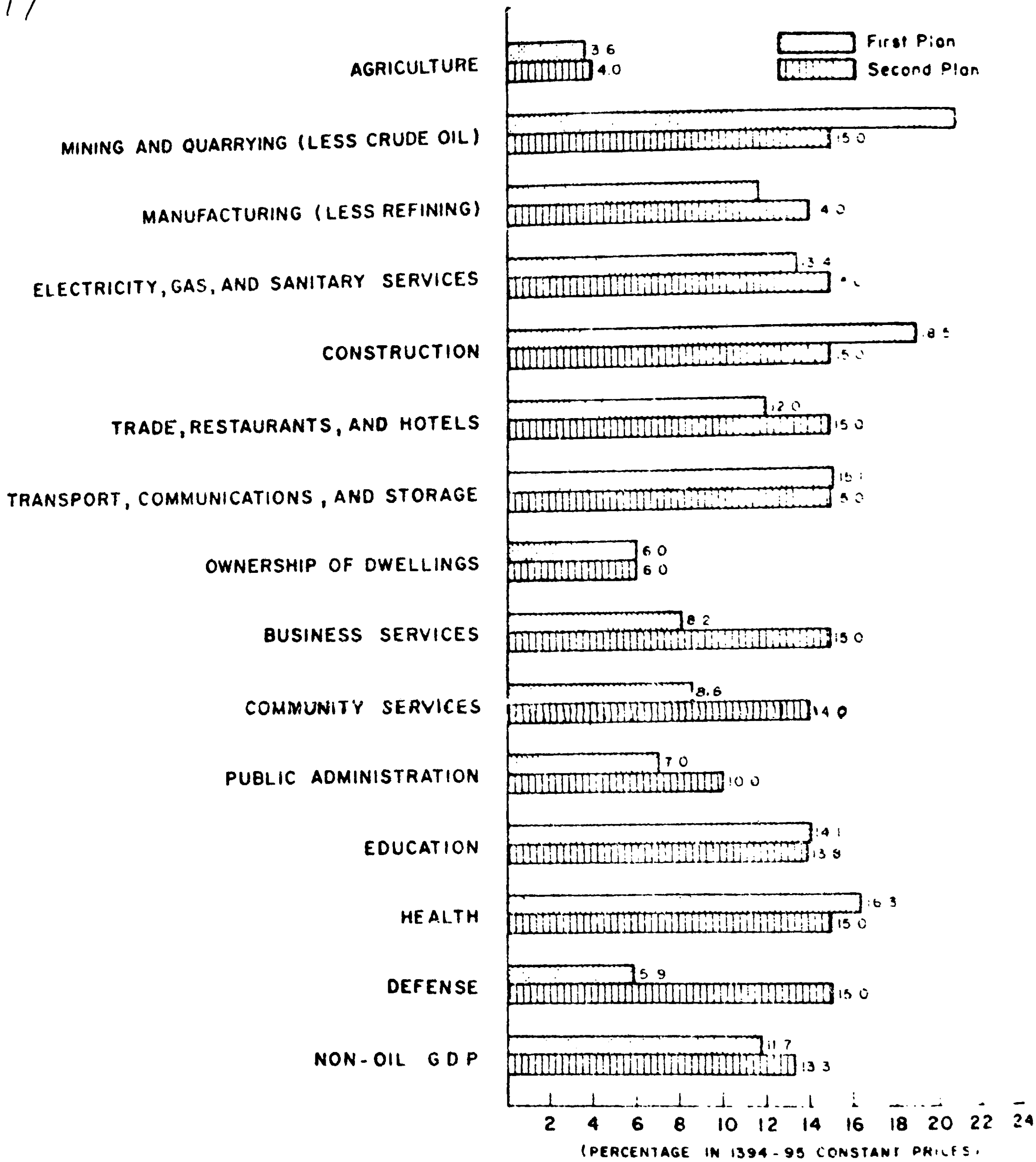

Figure III-4

AVERAGE ANNUAL GROWTH RATES IN NON-OIL SECTORS, FIRST PLAN COMPARED WITH SECOND PLAN

Crude oil production and refining will continue to dominate the economy over the next five years. However, this dominance is expected to show a relative decline during that period under the impact of more rapid growth throughout the balance of the economy. The private sectors projected to achieve the highest growth rates are mining and quarrying, construction, utilities, transportation and communication, trade and business services. The growth rates for manufacturing (excluding refining) and community services are almost as high. In the realm of government, health, education, and defense will rapidly expand.

D. Foreign Trade and Balance of Payments

Oil will continue to provide export earnings more than ample to cover extremely rapid rates of increase in all the payments' categories. On the basis of a posted price of $10.46 per barrel and a daily export rate of 8.22 million barrels, reciepts would equal some $31 billion annually.

On the payments side, imports of goods and services will rise very rapidly. The major import constraint is the capacity of ports and transportation. If these constraints are eliminated, a 30 percent average annual rate of increase of imports may be achieved reaching $19,631.8 million in 1979-1980 compared with $5,287.5 million estimated for 1974-1975.

E. Fiscal and Monetary Management

Revenues are sufficient to finance the Plan but economic planning for optimum utilization of these depletable resources is essential. Therefore, fiscal management will concentrate on implementing the following policies:

stimulated by the amount of spending required to implement the Plan and will accordingly take measures to hold prices in line to the extent feasible and compatible with a free market economy and stability.

In addition to its programs for direct encouragement of private-sector activities--that is, the development of the physical and commercial infrastructure, including the building of industrial estates--the Government plays an important role in channelling financial resources into private productive enterprises. This includes providing loans from special funds, providing equity capital and, when the enterprise proves successful, selling its shares to individuals, and encouraging the creation of investment consortia--joining banks, Saudi investors, and foreign capital.

CHAPTER IV. ECONOMIC RESOURCE DEVELOPMENT (PP. 98-242)

One of the primary objectives of the Plan is to reduce the Kingdom's overwhelming dependence on export of crude oil by developing a diversified industrial economy producing an increasing range and quantity of foodstuffs, minerals, and manufactured products. This chapter sets out the plans for continuing the diversification already started under the first development plan.

A. WATER

Highlights

Programs for development of water during the Plan provide for increasing water supplies to inland cities from underground sources, including major well drilling to supply Riyadh with an additional 120,000 cubic meters of water per day by 1978. Desalination will be the main source developed for the east and west coast urban centers and industrial complexes; here the projected increase in water production will amount to about 209,000 cubic meters per day on the Red Sea and 380,000 on the Arabian Gulf coast, although not all the planned capacity will be in production by 1980. For the longer term, an extensive program of studies is planned for the development and conservation of the Kingdom's water resources. All the larger desalination plants will be the dual-purpose type producing electricity as well as water.

Present Conditions. Due to extremely sparse rainfall, ground water meets the major portion of

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the Kingdom's water demands, while surface water satisfies a smaller share, and limited quantities are supplied by desalination. The chart (Table IV-1) shows the supply of water for major uses in 1394 (1974) and demand projected for 1400 (1980). Irrigated agriculture is, and will continue to be, by far the largest user of water.

Table IV-1

SUPPLY OF WATER FOR MAJOR USES 1394, AND FORECAST OF PRODUCTION REQUIREMENT 1400
(Thousand cubic meters per day)

Main Cities	Supply 1394	Production Requirement 1400[a]
Riyadh	57.5	163
Jiddah	57	142
Mecca	18.6	74
Tayif	6	41
Medina	22	35
Dammam and others[b]	50	90
Subtotal	211	545
Industrial Complexes		
Jubail	--	76[a]
Yanbu'	--	19[a]
Subtotal	--	95[a]
Oil-well Injection	1,100	2,400
Irrigation Agriculture	5,370	7,060
Total	6,681	10,100

---

a Subject to rescheduling of implementation of industrial projects.

b Dhahran, al-Khobar, Safwa, and Qatif.

The Ministry of Agriculture and Water, the Municipalities Department of the Ministry of Interior and the Water Desalination Organization are the three government agencies concerned with the development of water resources and water use planning. Uncertainty about the availability of ground water and how rapidly it can be used, an anticipated 10% annual growth in urban water consumption, and rapidly expanding industrial, mining and agriculture demands require coordinated water planning in the framework of a national policy for conservation and management.

Objectives and Policies. a. Develop ground water to meet immediate urban, industrial and agriculture demands in locations distant from the sea coast.

b. Accelerate development of desalinated sea water to meet urban and industrial demand in coastal areas and selected locations away from the coast.

c. Improve water quality and distribution in urban areas.

d. Provide water to new industries consuming large amounts of water only in locations near the sea.

e. Permit increased water use for agriculture only where it is in the public interest over the long term.

f. Provide water for mining operations after taking account of urban, industrial and agriculture needs.

g. Establish a comprehensive information system on the Kingdom's water supply systems.

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TABLE IV-2

PLANNED STUDY, DESIGN, AND CONSTRUCTION OF DESALINATION PLANTS, 1395-1400 (1975-1980)

		Production Capacity Water (cu.m/day)	Electricity (MW)	1395-96	1396-97	1397-98	1398-99	1399-1400	Third Plan
West Coast									
Jiddah,	Phase III	76,000	200	——	——	——	——	——	
	Phase IV	190,000	500				——	——	- - -
Medina,	Phase I	76,000	200	——	——	——	——	——	
	Phase II	152,000	400					——	- - -
Yanbu',	Phase I	19,000	50	——	——	——	——		
Rabigh,	Phase I	910	-	——	——				
Duba,	Phase III	19,000	50	——	——	——	——		
Haql,	Phase II	5,700	15		——	——	——		
al-Wajh	Phase III	57,000	150			——	——	——	- - -
al-Lith,	Phase I	460	-			——	——		
Qunfudhah,	Phase I	3,800	10			——	——		
Farasan,	Phase I	455	-	——	——				
East Coast									
al-Khobar,	Phase II	190,000	500	——	——	——	——	——	
	Phase III	152,000	400					——	- - -
Jubayl,	Phase II	76,000	200	——	——	——	——		
	Phase III	114,000	300		——	——	——	——	- - -
Khafji,	Phase II	19,000	50	——	——	——	——		
	Phase III	95,000	250				——	——	- - -
al-Ogayr,	Phase I	95,000	250				——	——	- - -
Inland (brackish water)									
al-Kharj,	Phase I	570	-				——	——	- - -

h. Conduct special studies on development of underground and surface water supply systems.

i. Develop a National Water Policy, a National Water Code and National Water Standards, and, within the context of these, a National Water Plan.

Programs and Projects. To accomplish the foregoing objectives, projects involving construction of water distribution and transmission systems, treatment facilities, small dams and well drilling and repairs will be commissioned throughout the Kingdom. The program for construction of dual purpose plants to produce water and electricity outlined in Table IV-2 will be undertaken. A series of data gathering projects will be undertaken to establish a national data base for water use planning throughout the Kingdom. Research programs will be commissioned in the recharging of wells, reclamation of brackish water, water harvesting, use of remote sensing and other fields related to finding and developing water resources.

A few examples of the many specific projects contemplated are:

- Undertake the third stage of construction of the Jiddah water distribution network (1975-1980).

- Complete drilling of 11 wells near Riyadh to provide an additional 65,000 cubic meters per day.

- Continue design and construction of a system to supply up to 100,000 cubic meters per day to Medina.

- Implement water supply systems for Riyadh and Jiddah.

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- -- Design and construct networks or additions thereto in over 50 towns.

- -- Undertake special investigations to increase the efficient utilization of basic data by making basic observations and studies in eight representative areas.

Finance. The following tables reflect the forecast of financial requirements of the three agencies for their water-related programs during the life of the Plan.

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$ MILLIONS

Ministry of Agriculture and Water (Water Plan)

	Budgeted 1394-95	1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan Total
Recurrent*	-	3.3	4.2	5.1	6.1	10.2	28.9
Project	147.6	264.3	361.1	391.3	429.7	477.2	1,923.6
Subtotal	147.6	267.6	365.4	396.4	435.7	487.5	1,952.6

* Recurrent costs for existing Ministry of Agriculture and Water (MAW) water programs are included in the discussion on Agriculture.

Municipalities Department

	Budgeted 1394-95	1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan Total
Recurrent*	-	-	-	-	-	-	-
Project	15.7	132.4	89.8	93.8	98.0	102.3	516.2
Subtotal	15.7	132.4	89.9	93.8	98.0	102.3	516.2

Water Desalination Organization

	Budgeted 1394-95	1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan Total
Existing projects	81.1	83.0	63.9	-	-	-	146.9
New Projects**	-	2,583.0	643.2	386.1	1,762.5	1,686.9	7,061.6
Subtotal	81.1	2665.9	707.1	386.1	1762.5	1,686.9	7,208.5

Total Water Resources Programs

	Budgeted 1394-95	1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan Total
Recurrent	-	3.3	4.2	5.1	6.1	10.2	28.9
Project	244.5	3,062.6	1,158.1	871.1	2,290.2	2,266.5	9,648.6
Total	244.5	3,065.9	1,162.3	876.3	2,296.3	2,276.7	9,677.3

* Recurrent costs for existing Municipalities Department water programs are included in the discussion on Municipalities finance.

** Includes provision for electric power generation in dual-purpose plants.

Note

Column totals may not add due to rounding.

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B. AGRICULTURE

Agriculture is by far the largest user of water in Saudi Arabia. Because of the scarcity of this resource, major expansion of the area of land that can be brought under irrigation will depend largely on the outcome of planned studies relating to development of water resources and their availability for agricultural use.

Much of the new agricultural land will be in regional projects developed under field directorates of the Ministry of Agriculture and Water, but including special social and economic programs to improve the well-being of rural people and to modernize farming methods. The regional projects and existing agriculture and stock-raising will be supported by coordinated research programs and extension services designed to increase domestic production of priority cereals (wheat, barley, and sorghum), livestock, vegetables, and fruit. Agricultural credit provided by the Saudi Arabian Agricultural Bank is to be greatly expanded over the plan period. The Bank will offer a total of $150 million in credit for agricultural production and a further $40 million for the marketing and processing of agricultural products.

1. Present Conditions. The Ministry of Agriculture and Water is primarily responsible for the development of agriculture. The total value added in the agricultural sector in 1975 is estimated at $400 million or 8.6% of the private non-oil gross domestic product. Owing to increasing national income and population the growth in food consumption is rather high. Food imports have grown much more rapidly than domestic production thus the Kingdom's self-reliance in food production has fallen significantly for most commodities. The labor force in agriculture is declining due to low incomes in agriculture and growing opportunities in the cities.

Cropped land was estimated 525,000 hectares * in 1970 with the average holding under 8 hectares.

* 1 hectare equals 2.47 acres.

Because of the small size of the farms use of machinery is limited. 121,000 hectares are irrigated and the rest are rain-fed. The Plan target is for an additional 50,000 hectares to be irrigated. Most land is arid or semi-arid, suitable only for periodic grazing. These range lands, although badly overgrazed, support three-fourths of the country's livestock population of 8.5 million in sheep equivalents.

Research and extension services are limited and the Plan calls for major improvements in both. Use of fertilizers did not exceed 11,000 tons in 1974 whereas the actual requirement for irrigated lands are as high as 50,000-60,000 tons. Channels for importation and distribution of fertilizer must be improved.

The Government offers both input and output subsidies. Input subsidies are paid on farm machinery, irrigation pumps, poultry and dairy equipment and transport costs of imported dairy cows. Output subsidies are paid on wheat, sorghum, rice, camels and sheep in order to attract more resources into production of these products.

2. Objectives and Policies. The three main objectives for agriculture development are to raise per capita income and improve the welfare of rural people, minimize dependence on imported food, and release surplus labor for employment in other fields. To achieve these objectives, the Government will:

-- Encourage private enterprise in food production, processing, and marketing while confining its own activities to those into which private entrepreneurs are unable or unwilling to enter.

-- Aim at a reasonable balance between the economic and social rewards available from agricultural activities in

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the rural areas and the rewards available from other economic endeavors in the urban areas.

-- Recognize future as well as present needs and consumer as well as producer needs in implementing agricultural programs.

The Government's strategy for effecting this national policy is based on the following eight principles:

-- The best use of water resources, especially depletable resources.

-- Maximum feasible self-sufficiency in the production of farm machinery, seed, fertilizer, and other inputs.

-- Development by the private sector, including cooperatives, of the facilities and services required for food processing and distribution.

-- The same guarantees for foreign investors in agriculture as for foreign investors in industry.

-- Provision by the public sector of the physical infrastructure and the safety and animal health services required by the private sector in agriculture.

-- Expansion of the credit available from both government and private sources for the development of agriculture, including fisheries.

-- The provision, when studies show they are needed and feasible, of special economic incentives and programs to stabilize prices or support farm incomes.

-- Protection of the environment from pollution associated with agricultural activities.

3. Programs and Projects. A major focus will be on regional development, and a series of studies and plans will be undertaken to develop better ways to improve crop and livestock production and to utilize water resources on the regional level. Production in the following sub-sectors will be emphasized.

Cereals: Wheat, barley and sorghum
Livestock: Sheep, poultry, dairy and beef
Horticulture: Vegetables, fruits

A multi-faceted approach involving research, improved extension services, marketing and farm credit assistance, seed production, animal breeding, soil and water surveys, training, data development, and economic analysis will be employed to improve agricultural production. The Ministry of Agriculture and Water knowing that entreprenurial talent is in short supply in this sector, will actively encourage private investment in the development of commercial agriculture.

A few of the many projects contemplated during the plan period are listed below.

-- For the 'Asir region, a detailed development plan is to be drafted in 1975. This will include strengthened extension services, initiative of a bee-keeping program on 15,000 hectares of fruit land, and rehabilitation of 180,000 hectares of range land.

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-- Pre-design study (1975-77) will be undertaken on reclamation of up to 8,000 hectares, development of infrastructure, and optimum land utilization in the Wadi ad-Dawasir region.

-- For the al-Hasa area a study will be performed of water resources (1975-77) and land preparation (1976-78) prior to constructing an irrigation and drainage system to increase the area under cultivation by 6,000 hectares.

-- Research and extension programs will be developed to improve both the quality and quantity of vegetable production, by introducing improved varieties, pure seed, and improving production, management, and marketing procedures.

-- A comprehensive soil survey and classification program will be launched, focusing on their effectiveness in increasing productivity and potential for successful application of the experience gained to future land development projects.

-- Undertake training programs to alleviate shortages in special categories of skills. For example, students in short courses in special agriculturally-related skills to increase from 337 at the beginning of the plan to 2,360 at the end.

-- Develop the Ministry's capability in automated data processing and storage.

-- Build headquarters for the Ministry's field staff in eleven locations.

4. Finance. The financial requirements for agricultural development--excluding regional agricultural development, the cost of which has not yet been determined--under the Ministry of Agriculture and Water are estimated as follows ($ million):**

	Budgeted 1394-95	1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan Total
Recurrent	70.9	68.5	85.3	104.9	126.3	145.6	530.5
Project	70.6	123.0	121.6	124.2	105.2	91.8	565.8
Total	141.5	191.5	206.9	229.1	231.5	237.4	1096.3

MAW's water projects have been included in the financial estimates for Water, the first section of this chapter. Financial requirements for agricultural credit are shown in the next section.

5. Agriculture Credit. Agriculture credit is provided through the Saudi Arabian Agricultural Bank (SAAB). SAAB makes three types of loans:- short-term seasonal loans for production inputs; medium-term loans for farm machinery; and long-term loans for land purchase and development. Its capital endowment is now $29.3 million, exclusive of $13.8 million allocated for agricultural subsidies. It currently has the capacity to meet the credit needs of about 6% of Saudi farmers and its primary objective is to expand its loans to reach over 15% in the next five years. The annual requirement for financing of the SAAB, excluding subsidies, is as follows:

($ millions)

	Budgeted 1394-95	1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan Total
Recurrent	15.6	15.6	18.0	19.3	20.9	22.3	96.2
Loan finance*	11.6	24.6	25.7	23.6	21.8	25.8	121.3
Project	--	3.7	4.3	3.4	2.8	2.8	17.0
Total	27.2	43.9	48.0	46.3	45.6	50.9	234.7

* Planned loan finance less forecast loan repayments.
** Column totals may not add due to rounding.

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C. PETROLEUM

The Plan summarizes the developments in production and pricing which occurred over the 1970-1975 period.

Some of the major petroleum-resource management objectives of the Ministry of Petroleum and Minerals in the 1975-1980 Plan period are:

-- Accelerate exploration activities throughout the Kingdom to identify new fields;

-- Continually re-assess reserve positions of existing fields based on new seismic and drilling investigations;

-- Accelerate seismic and drilling investigations of the entire oil-prone sedimentary surface area of Saudi Arabia;

-- Accelerate Ministry programs to recruit and develop administrative, professional, and technician manpower.

In the management of petroleum resources, as with water and land, the Government's five-year plan should be considered as an early stage in very long-term development. Thus many of the programs planned by the Ministry of Petroleum and Mineral Resources for 1975-1980 are basic studies which will include techno-economic analyses of world trends in petroleum production and trade, the roles of petroleum as energy and as raw material, and international conservation of hydrocarbon resources. Other studies will increase knowledge of the Kingdom's own hydrocarbon

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resources: seismic exploration will be extended to all areas, including the Rub' al-Khali; field studies will be made of reserves, production potentials, and production improvements; and a special investigation of pipeline, treatment, and storage installations will precede improvement and expansion of these utilities. Sophisticated computer technology will be used in many of the studies.

The annual financial requirements of the Ministry of Petroleum are estimated as follows ($U.S. millions)*:

	Budgeted 1394-95	1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan Total **
Recurrent	5.9	9.7	13.1	17.7	23.9	32.3	96.8
Project	13.6	16.8	28.4	42.4	44.2	55.8	187.6
Total	19.5	26.5	41.6	60.1	68.1	88.1	284.3

* Excluding project costs of the Aerial Survey and Mapping Department, which are shown later (Chapter VIII).

** Column totals may not agree due to rounding.

Some of the specific projects and programs envisaged during the plan period are:

-- Strengthen the technical study programs which provide understanding of advanced developments in world-energy technologies, including major new forms of energy as they affect the long-range outlook and the future role of petroleum as energy and raw material;

-- Introduce by 1978 the advanced techniques in data processing and interpretation recently developed for seismic work.

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-- Complete a new investigation by 1978 of existing pipelines, treatment and storage installations to inventory these facilities, their adequacy, efficiency, maintenance and replacement requirements. On the basis of the findings, implement a series of projects in the latter years of the Plan for additional studies and actions to maintain or improve overall operating condition;

-- Complete and staff by 1980 the chemical laboratory facility in Dhahran;

-- Execute the computer utilization project that is to be initiated in 1975 and extend it throughout the Plan period to cover both technical assistance and staff training.

D. MINERALS

The development of the minerals sector in the next five years is planned largely to increase the commercial potential of the Kingdom's metallic and non-metallic resources. In the continuing geological mapping program, maps will be compiled to assist comprehension of regional geology. While the emphasis will remain on the Precambrian Shield, mineral exploration will be extended to other areas and will gain increasing importance relative to basic geological studies. Two of the special studies planned relate to uranium prospects and to the availability of water for a minerals industry. The Mining Code and other regulations and incentives will be reviewed in the light of international practices to encourage private enterprise in exploration work. The main provisions of the Mining Code, which was amended to encourage exploration by foreign mining companies are summarized in Figure IV-4.

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Figure IV-4

SUMMARY OF SAUDI ARABIA'S MINING POLICY (1394)

Mineral exploration and development in the Kingdom is controlled by the Mining Code, which is modern in concept and authorizes the issue of the following documents:

- Reconnaissance Permit: gives the holder the right to carry out mineral reconnaissance over a specified area, which is not limited in maximum size but which excludes any areas under exploration license or mining lease. The principal advantages are that the permit is a basis for work permits for foreign staff, and entitles the holder to import exploration equipment duty-free.

- Exploration License: conveys the exclusive right, initially for up to five years, to explore for specified minerals over an area not exceeding 10,000 square kilometers, and in recognition of this exclusive right, the license undertakes a phased exploration program and guarantees a minimum expenditure. The principal terms of any subsequent mining lease are defined in the exploration documents and Mining Code. No rent is charged.

- Mining Lease: authorizes the holder to mine. No royalty is charged, and taxation is either by way of income tax or by a previously agreed profit-sharing arrangement. In the case of income tax, a tax holiday of five years is granted, starting from the date of first production or from the beginning of the fourth year after the signing of the lease, whichever is the sooner.

Exploration License will normally be granted to a foreign mining company only after the company has concluded a partnership agreement with the state organization Petromin, providing for joint investment in mining if the company exploration proves successful; the degree of participation is not defined, but existing agreements are mainly on a 50 percent basis. Exploration costs are capitalized; exploration expenses on the area by the Government prior to the granting of the exploration license are credited to Petromin, and subsequent expenditure by the mining company is credited to the company.

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Major specific mining objectives in the Plan period are:

-- Survey and record the geology of the Kingdom as a basis for mineral exploration;

-- Investigate the mineral resources and build an inventory of mineral potential;

-- Stimulate the development of a sound mineral industry;

-- Continue and expand the Group Contract through which experienced foreign staff are supplied to the Directorate General of Mineral Resources (DGMR) on a full-time or short-term basis in order to increase DGMR output and provide the professional experience to aid the development of Saudi technical capability.

Selected projects and programs to be undertaken are:

-- Initiate a study of the stratigraphy and structure of the Red Sea coast sediments (1975-77);

-- Initiate a special project to explore uranium prospects (1975-77) for basic data;

-- Initiate a five-year project to compile and interpret a comprehensive gravity anomaly map of the Kingdom;

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-- Establish a laboratory and procure associated field equipment for rock analysis (complete by 1978);

-- Establish a cost accounting facility within DGMR.

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E. ELECTRICITY

Highlights

The integrated electricity system that is planned will add 3,300 megawatts of generating capacity and 3,500 kilometers of transmission line to the present non-integrated system and will serve 1.6 million more people. Much of the new generating capacity will be in dual-purpose desalination plants. Emphasis will also be placed on development of operating standards, interconnections that will reduce the present number of power stations, the orderly integration of demand centers, and a full-scale technical planning and program-management function. The latter will carry out many studies in preparation for the establishment of a national body to develop, regulate, and administer the integrated electricity system. Steps are also being taken to standardize electrical voltage at 60 cycles with distribution voltage being set at 127/220, and a decree has been issued to establish a consolidated power company for the Eastern Region.

Resources to develop electricity systems--particularly skilled and professional manpower--are in short supply in most parts of the world. The high demand for such men results in a high price for recruiting them. There is already a nucleus of operating and management capability in the electricity system operations of Jidda, Riyadh, Dhahran, Aramco operations, and the Water Desalination Organization. The personnel and experience of these organizations must be drawn on heavily in executing the second national Development Plan.

Two thirds of the new generating capacity is planned for the East, while 85% of the transmission line expansion is to be done outside of the East. Table IV-14 shows the additional generating capacity, transmission line, and people connected by 1980.

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Table IV-14

ANALYSIS OF INTEGRATED SYSTEM IN 1400 (1980)

Region	Additional Capacity (MW)	Additional Transmission Line (km)	Additional Number of People Connected (millions)
East	2,437	455	0.14
Central	165	935	0.30
West	562	450	0.07
Southwest	70	1,400	1.0
North	48	300	0.1
Total	3.282	3.540	1.61

Source: Central Planning Organization

Integrated or interconnected power systems are to be developed to the maximum possible extent. The major one is anticipated on the East Coast running inland perhaps as far as Riyadh, while two are planned on the West Coast. Total investment in new generating capacity is estimated at approximately $1.8 billion.

The Electric Services Department in the Ministry of Commerce and Industry has been formed to provide technical planning for the expanding system. It is initially to be staffed with non-Saudi contract personnel.

Programs and Projects

Contemplated programs include many elements of the overall electricity system that have been introduced by the Electric Services Department. These are complemented by projects in interconnection and central generation.

Selected programs and projects are:

-- Initiate within the first six months of the plan period mechanisms to obtain approval for standards to be prepared, and establish an organization and funding to implement these standards;

-- Study how to implement an interconnected and integrated generation and transmission system to provide assured supply for the capital city and other main centers, reliability and flexibility for industrial development, and electricity service for the largest number of cities and villages;

-- Subject to the above study, provide interconnection links totalling over

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2,000 kilometers between major population and economic centers -- e.g., Jubail to Abqaiq, and Jiddah to Mecca and Tayif.

-- Develop a preliminary 15-year electricity plan.

-- Develop an electricity system planning model to provide evaluations for electricity system planning decisions.

Finance

Forecasts of the financial requirements for implementation of the electricity plan are summarized below. These forecasts are necessarily broad approximations but nevertheless indicate the magnitude of the required financing ($ millions).

Electric Services Department

	Budgeted 1394-95	1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan * Total
Recurrent	1.9	3.1	4.5	6.3	8.0	9.4	31.5
Project	20.9	96.6	129.3	116.5	108.0	81.0	531.3
Total	22.8	99.7	133.8	122.7	115.9	90.3	562.8

Investment

The total investment in the electric power generating system is estimated at $1.8 billion. After adjustments for the projects of the Electric Service. Department and the generation capacity of the Water Desalination Organization, the net investment

*Column totals may not add due to rounding.

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requirements are as follows: ($ millions)

1395 -96	1396 -97	1397 -98	1398 -99	1399-1400	Plan Total
56.8	113.6	170.5	255.7	394.9	991.5

Note: Column totals may not add due to rounding.

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F. MANUFACTURING

Highlights

Manufacturing is a point of concentration of the Development Plan as a whole, for the Kingdom can reduce its dependence on sales of crude oil only by expanding and diversifying its manufacturing activities. In the oil-producing Eastern Region, when feasibility studies are complete, major plants will be constructed for gas gathering and treatment, production of petrochemicals, refining of products for export, fertilizer production, and manufacture of steel and aluminum products. The total investment in these projects during the Plan is estimated at $11,318 million. In the Western Region, with crude oil and NGL piped from the east, an export refinery and a petrochemical complex will account for a further investment of $3,082 million.

Planned expansion of other manufacturing includes increasing cement production capacity from 1.5 million tons annually to 10 million tons, construction of three large integrated grain-silos, flour milling, and feed-milling complexes, and a wide variety of other activities including food processing, construction materials and products, automobile assembly and parts production, and the manufacture of fabrics, carpets, and other consumer and health products.

Planning studies will be completed for a major industrial estate at Jubail to accommodate hydrocarbon-based industries and several estates elsewhere will be expanded or created for other industries.

To encourage full participation of the private sector in economic diversification, the Government is continuing to develop special incentives, investment funds, and other inducements while rationalizing its regulatory systems.

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To facilitate industrial expansion the plan emphasizes improved administrative mechanisms to assist businessmen, improved financing arrangements, and the continued expansion of industrial parks. The steps include:

1. The Ministry of Commerce and Industry and the Industrial Studies and Development Center will develop commercial policies and provide services designed to enhance the participation of foreign private enterprise in Saudi development;

2. The Industry Department of the Ministry of Commerce and Industry will administer the industrial policies and assist on such matters as developing joint ventures and administering operational and training subsidies provided by the Saudi Arabian Government.

3. The Industrial Development Corporation will assume responsibility for developing major industries other than those based on hydrocarbons.

4. The Saudi Industrial Development Fund will continue to provide loans to new private enterprise ventures.

5. The Saudi Arabian Monetary Agency will encourage the expansion of equity and working capital for industrial credit through commercial banks.

Programs and Projects

Selected programs and projects to be undertaken during the Plan period include:

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-- Continue the ongoing reviews of present incentives to Saudi and foreign private enterprise to assure that they are comparable to international incentives for such investment. Subject to this review will be tax policies, tariffs and subsidies, performance stipulations, capital transfer by foreign interests, investment risk insurance, tendering and contracting positions, etc.

-- Expedite plans for bringing the new Industrial Development Corporation into full-scale operation by 1977. This Corporation will participate in or establish selected major industries not based on hydrocarbons.

-- Complete the planning studies now underway for development of a major industrial estate complex for new hydrocarbon based industries at Jubail, implement construction starting this year.

-- Implement this year a major review of tender laws to ensure that operational problems of manufacturers are recognized in such stipulations; consider for example, inflationary trends in costs, unforeseeable production shutdowns, and changes in tender specifications and bid approval.

-- Implement a major program for expanding the use of petroleum and gas as feedstocks and energy as summarized in Table IV-18 attached.

-- Construct four petrochemical complexes, three in the Eastern region and one in the Western.

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-- Complete feasibility studies by 1976 for a major new rolling mill for reinforcing bars in the Western region.

-- Implement plans for design and construction starting next year of an aluminum plant in the Eastern region.

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MAJOR DEVELOPMENT PROGRAMS FOR HYDROCARBON-BASED INDUSTRIES, 1395-1405
(1975-1985)

Programs and Projects	Investment (SR millions)	($Million)	Capacity	Peak Employment
Eastern Region				
Gas gathering and treatment	16,000	4,545	1,600 million cu.ft/day	2,300
Petrochemical complexes (4, of which 3 to be initiated, 1395-1400)	9,000	2,557	2.0 million tons/year equivalent ethylene	6,800
Export refineries (2)	4,600	1,307	500 thousand bbls/day	1,700
Lube oil refinery	2,040	580	107 thousand bbls/day[a]	550
Fertilizer plants (4, of which 2 to be initiated, 1395-1400)	1,400	398	2 million tons/year	2,000
Aluminum plant	1,300	369	210 thousand tons/year	1,900
Steel plant	5,500	1,563	3.5 million tons/year	8,600
Subtotal	39,840			23,850
Western Region				
Crude line to West	5,300	1,506	2.4 million bbls/day	550
NGL line to West	1,200	341	356 thousand bbls/day	
Export refinery	2,100	597	250 thousand bbls/day	850
Petrochemical complex	2,250	639	500 thousand tons/year equivalent ethylene	1,700
Subtotal	10,850	3,082		3,100
Total	50,690	14,401		26,950

a 12,000 bbls/day of lube stock, 95,000 bbls/day of low sulphur oil.

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G. CONSTRUCTION

Highlights

Gross value of annual construction in Saudi Arabia is now estimated at approximately $2.7 billion. The new 5-year plan contemplates a vast expansion in construction involving a 6-fold increase based on 1975 prices. To accomplish this the Government foresees the need to invoke new measures to expand construction capacity and that success will be largely dependent on effective utilization of foreign contractors, laborers, materials, machinery and equipment. These new measures include facilitating tendering procedures, limiting responsibility for uncontrollable delays and changes in costs, and increased utilization of time and labor-saving technology.

The plan specifically recognizes the need to implement various measures recommended by the construction industry if expansion is to be achieved. These include:

1. Granting contractors block quotas to import foreign construction labor;

2. Taking steps to eliminate port delays;

3. Granting contractors the option of operating under fixed-fee rather than lump-sum contracts;

4. Establishing legal procedures for prompt adjudication of disputes.

Table IV-26 gives the estimated capital investment in planned major construction programs during the plan period.

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Table IV-26

ESTIMATED CAPITAL INVESTMENT IN PLANNED MAJOR CONSTRUCTION PROGRAMS[a]

($ Billions at 1394-95 Prices)

Program	Estimated Funding
Buildings	
Schools	9.4
Housing	8.2
Hospitals	3.4
Military bases	2.6
Other government	1.4
Commercial	1.1
Subtotal	26.1
Civil Engineering Works	
Municipalities	13.1
Highways	2.8
Airports	2.3
Ports	1.7
Electricity generation	1.7
Desalination plants	5.7
Subtotal	27.3
Industrial Plants	19.9[b]
Total	73.3

a Estimates are for major programs only. Miscellaneous additional projects are estimated to add at least 15 to 20 percent to the capital funding.

b Includes Aramco capital investment programs and the Jubail infrastructure costs (excluding housing, electricity generation, and water desalination).

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Programs and Projects

-- Establish immediately a central office within the Government to monitor the overall construction program and co-ordinate matters affecting all types of construction;

-- Initiate immediately a comprehensive review of regulations, codes, contract stipulations, and other procedures bearing upon contractor operations. Included in the review would be: tendering procedures, settlement of disputes, cost escalation clauses, labor force regulations and procedures including recruitment and employment of foreign personnel, and assistance in procuring critical materials and equipment.

-- Take action this year to expand and accelerate present programs directed to using manufactured building components as a significant means of expanding construction capacity in the Kingdom;

-- Establish materials testing laboratories at Jidda, Dammam and Medina.

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COMMERCE

Present Conditions

Commercial activities--trade, transportation, finance and services--increased at an estimated annual rate of 12.6% from 1970-1975. Crops and prepared foods, construction materials, consumer goods and transportation goods led the list of imported items. Rising costs and supply problems have led the Government to begin assisting with the procurement of selected basic commodities such as foodstuffs and cement.

Much of Saudi Arabia's commercial activity is presently carried on by small merchants and individual operators. It is anticipated that continued expansion will lead to larger business units. To assist in this several specialized financial institutions have been developed in the Kingdom, including:

1. Saudi Industrial Development fund to provide capital loans for industrial ventures;

2. Real Estate Development Fund to encourage housing construction and individual home ownership;

3. General Investment Fund to provide for Government participation in newly established domestic joint-stock corporations;

4. Saudi Contractors Fund to supply loans to contractors.

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Five-Year Plan Goals

It is anticipated that the gross domestic product of commerce will double between 1975 and 1980 with the average annual growth rate being on the order of 15%. Major goals in this commercial sector are to improve wholesale and retail trade practices; expansion of hotel and restaurant facilities to accommodate foreign visitors; further development of the commercial trade and inter-city passenger industries, and further development of the services of financial institutions.

To effectuate these objectives, the SAG is undertaking a number of administrative steps:

1. Create a non-profit supply corporation to represent both the public and private sector in such things as determining long-term supply and price outlooks for selected commodities; determining stockpile requirements; and coordinating procurements of government agencies.

2. Through the Ministry of Communications plan a modern commercial transport and storage industry;

3. Through the Saudi Arabian Monetary Agency and representatives of private business conduct a review of commercial financial services;

Programs and Projects

Some major programs and projects are:

-- Complete reviews this year of the Saudi Arabian National Transport Survey and proceed with planning of a modern commercial transport and storage industry providing, inter alia, modern terminal facilities and materials handling equipment and practices;

-- Initiate a review this year of the commercial insurance industry within the Kingdom;

-- Continue to encourage the development of adequate business services in accounting, law, engineering, management consulting, and business research. Encourage the use of expert foreign assistance as necessary for these support services.

CHAPTER V. HUMAN RESOURCE DEVELOPMENT (PP. 242-416)

This chapter outlines the broad objectives and policies of labor force development, and the planned programs designed to ameliorate the country's extremely tight labor market. It also describes the major manpower planning and institutional changes required. The Plan calls for the establishment of a new manpower planning department within the Central Planning Organization and a national manpower training organization as a separate government agency.

A. MANPOWER

The Plan calls for total employment to reach 2.3 million by 1980. This represents an annual increase over the next five years of 8.9% compared to the 6.6% annual increase obtained during the first plan. This increase is to be effected by increasing both the numbers of Saudis in the work force and by importing large amounts of non-Saudi labor.

The Saudi work force is expected to increase from about 1.3 million in 1975 to 1.5 million in 1980. The largest projected increases are in unskilled and semi-skilled workers.

The non-Saudi labor force is expected to increase by nearly one-half million workers in 1980. They will be largely service, clerical and semi-skilled workers.

Manpower development will be the specific responsibility of a new manpower training organization to be established as a separate, independent government agency. In addition, a manpower planning department will be set up within the Central Planning Organization to coordinate overall development and utilization of the Saudi and non-Saudi manpower within the economy.

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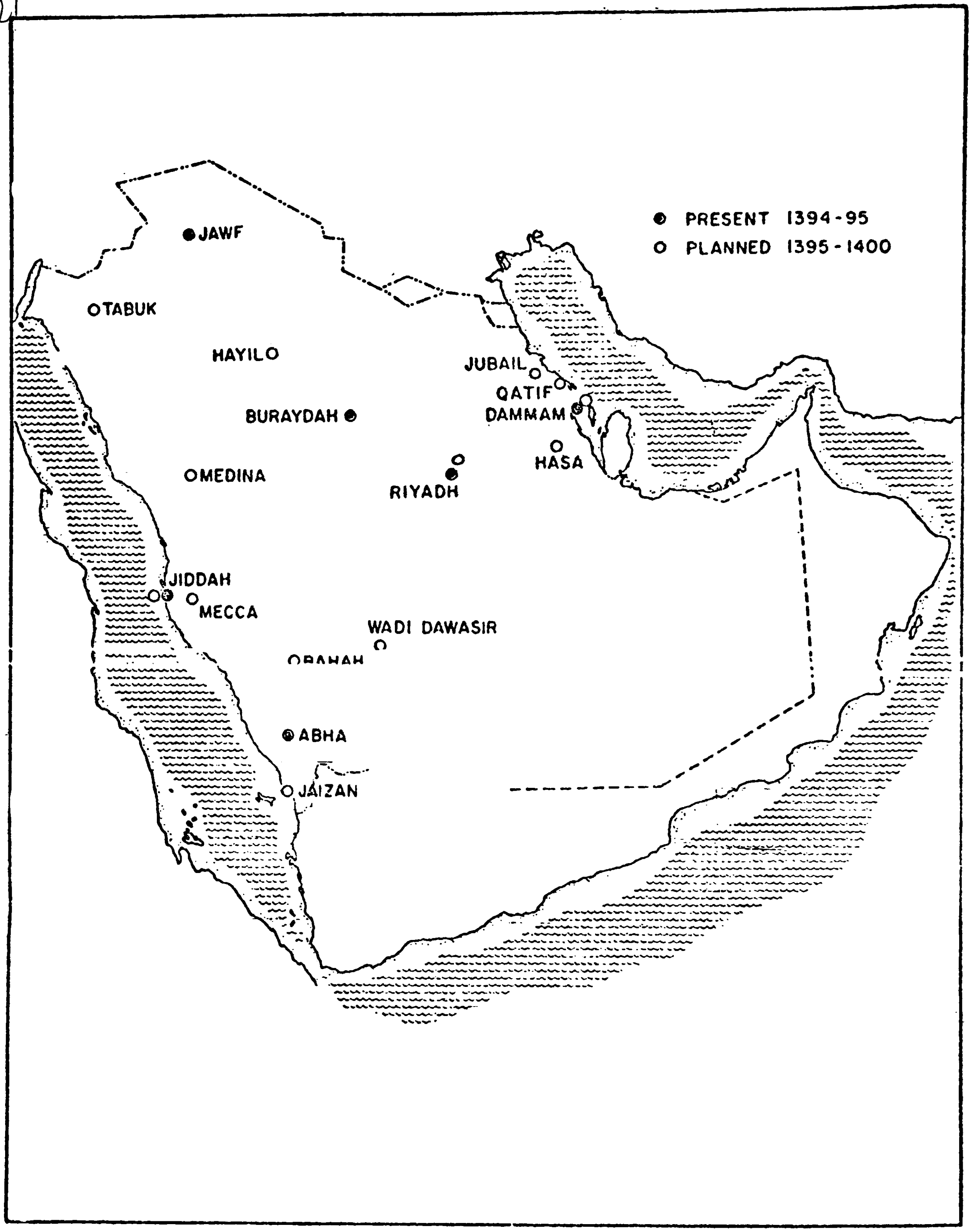
B. TRAINING

Training programs for government employees are sponsored by the Saudi Institute for Public Administration (IPA). Its programs are expected to reach 3,340 in-service trainees by 1980, nearly doubling the present annual number of participants. To accomplish this, the IPA budget will grow from \$5.1 million to over \$9.9 million a year during the next five years. The number of trainees at the intermediate administrative level will grow from 305 to 780 a year (a 155% increase from 1975 to 1980). Other areas of training emphasis are high administrative training, English language training, and pre-service training which will include a major program in industrial management for university graduates.

Vocational training is entering a new stage with a massive effort being launched within the Ministry of Labor and Social Affairs (MLSA) to greatly expand the types and numbers of trainees largely in the construction and metal-working trades. The MLSA annual budget currently \$12.9 million, will increase to \$111.9 million by 1980. This budget will finance the establishment of new 1500-pupil Vocational Training Centers in Riyadh, Jidda, and Dammam, a 500-pupil Vocational Training Center in Jubail and new 300-pupil Vocational Training Centers in Mecca, Medina, Hayil, al-Hasa, al-Bahah, Wadi al-Dawasir, Tabuk, Qatif, and Jaizan. It will also enable MLSA to expand existing facilities in areas such as Burayadh, Abha, and al-Jawf and establish a 400-pupil instruction training center in Riyadh. (See chart on next page).

C. LABOR AFFAIRS

The MLSA expects to establish nine new branch Labor Offices in al-Bahah, Jubail, Bishah, al-Wajh, al-Zilfi, al-Ula, al-Qunfudhah, al-Lith, and Wadi al-Dawasir, in addition to its present 25. These offices will act to mediate labor disputes, enforce the provisions of Labor and Workmen Laws and



EXISTING AND PLANNED VOCATIONAL TRAINING CENTERS

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provide labor related information and statistics. Procedures including the processing of foreign work permits are expected to be made more efficient. MLSA's annual labor affairs budget, which will increase from a current $6.7 to $14.4 million by 1980, will also fund the establishment of labor health laboratories in Jidda and Dammam and the expansion of facilities at the health laboratory in Riyadh.

D. EDUCATION

The Saudi educational system is generally divided into four levels: the elementary level (Grades 1 through 6), the intermediate level (Grades 7 to 9), the Secondary level (Grades 10 to 12), the post-Secondary (University and Technical: 2 and 4 years), and the Graduate level (2 to 4 years).

The major educational goal of the new plan is the continued expansion of facilities at all these levels.

The enrollment of boys in elementary schools is expected to climb from 401,300 to 677,500 during the next five years. The enrollment of girls during the same period will increase to 353,400 from the present 214,600. To permit this increased enrollment, the number of boys' elementary schools is projected to increase from 2,063 to 2,908 by 1980 and 830 new elementary schools for girls will be established bringing the total number of elementary girls' schools to 1,530 by 1980. Facilities at many existing boys' and girls' schools will also be expanded.

Planned enrollment at the intermediate level for boys is projected to increase from 70,300 to 127,100 during the next five years. Enrollment for girls during the same period will climb from 34,000 to 70,200. The plan's objectives, underlying these figures, are the development of a capability to enroll 95% of boy elementary school graduates and 80% of girl elementary school graduates in intermediate level schools by 1980. To accomodate

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this larger number of students, 224 new Intermediate Boys Schools and 140 new Intermediate Girls Schools are expected to be constructed, facilities at existing schools expanded, and several thousand addditional teachers hired.

Enrollment at the secondary level for boys is expected to climb from 19,900 to 39,800 during the plan while girls enrollment will increase from 7,600 to 17,600. The plan also calls for the construction of 37 new boys' schools and 32 new girls' schools and for more than doubling the number of available secondary level teachers. Expansion is also planned in specialized programs such as teacher training, technical education, and adult education and literacy.

The objectives of the new plan at the University level include the completion of the new al-Dir'iyah campus of the University of Riyadh together with an expansion of the University's programs and student body, and the completion of a new Mecca campus for the King Abd al-Aziz University and the initiation of construction for a Campus and College of Medicine in Jidda. The plan also calls for an increase in student enrollment at the University of Petroleum and Minerals from its present 1,497 students to 2,651 students by the end of five years. This increased enrollment will be coupled with more than doubling the number of the University's instructors.

The system of Saudi Womens' Colleges, including the present colleges of Education in Riyadh and Jidda, will be expanded under the new plan; land will be purchased in Jidda for a new campus, a College of Arts will be established in Riyadh, and general enrollment will be increased. The general goal of this expansion will be the development of a capability to enroll 40% of the girl secondary school graduates by the end of the plan period.

Other objectives of the new plan in the area of higher education include the review of proposals for the establishment of polytechnic institutes and junior colleges and the implementation of initial steps leading to their construction; the expansion of facilities at the Islamic University, including the creation of several new colleges and the construction of necessary facilities; and the construction of a new Riyadh Campus for the Imam Mohamned Ibn Saud Islamic University.

E. CULTURAL AFFAIRS

Under the new plan, the Saudi Government will use its cultural affairs budget, which will increase from slightly less than $1 million to $8.4 million by the end of the plan, to expand the national public library system by establishing 10 new general libraries and replacing 16 existing libraries with newly constructed facilities. It will also begin construction of a National Museum in Riyadh and build six regional Museums, two Islamic museums, and four specialized archeological museums in other areas of the peninsula. In addition, the Government will expand facilities and activities at the King Abdul Aziz Research and Cultural Institute.

F. INFORMATION SERVICES

Under the new plan, television coverage will be extended to reach 90% of the population, the number of broadcast hours will be doubled, and color TV introduced. A national telecommunications network will also be established to achieve central television transmission capability.

Radio transmission will be expanded by the construction of five new medium-wave megawatt transmitting stations in Duba, Qurayyat, Jidda, Dammam, and Jaizan, and 20 medium-wave radio stations will be established. The goal of this program will be to provide daytime coverage to most of the Saudi population.

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Table V-1

ESTIMATED SAUDI MANPOWER BY OCCUPATIONAL GROUP,

1395 AND 1400

(Thousands)

Occupational Group	1395	1400	Increase 1395-1400
Managers, officials	7.4	8.7	1.3
Professionals	48.4	52.9	4.5
Technicians and sub-professionals	25.0	33.4	8.4
Clerical workers	67.5	99.6	32.1
Sales workers	82.3	97.2	14.9
Service workers	105.2	134.5	29.3
Operatives	40.0	57.1	17.1
Skilled workers	70.1	93.5	23.4
Semi-skilled workers	170.0	265.0	95.0
Unskilled workers	244.0	296.4	52.4
Farmers	311.2	281.0	(30.2)
Bedouins	114.9	98.7	(16.2)
Total	1,286.0	1,518.0	232.0

Table V-2

ESTIMATED NON-SAUDI MANPOWER BY OCCUPATIONAL GROUP, 1395 AND 1400

(Thousands)

Occupational Group	1395	1400	Increase 1395-1400
Managers	6.3	12.4	6.1
Professionals	15.7	23.5	7.8
Technicians and sub-professionals	31.4	81.3	49.9
Clerical workers	31.4	121.8	90.4
Sales workers	47.1	112.6	65.5
Service workers	47.1	145.2	98.1
Operatives	25.1	51.4	26.3
Skilled workers	47.1	101.9	54.8
Semi-skilled workers	62.8	162.5	99.7
Total	314.0	812.6	498.6

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CHAPTER VI. SOCIAL DEVELOPMENT (PP 417-493)

Economic advances and social development are interdependent and mutually reinforcing.

Social policies to be framed over the next five years are intended to raise health and living standards; to ensure that all people share in the growing prosperity of the Kingdom; to ensure that no family is prevented by large numbers, misfortune, or lack of opportunities for employment from obtaining the basic necessities of life; and to bring rural and nomadic communities health and welfare services comparable to those available to residents of urban communities.

Planned development of the Kingdom's social programs, discussed in this chapter, include improvement and expansion of health services; an increased and enlarged range of cooperatives, social security, community development, social welfare, and rehabilitation programs; and extension of the Government's contributory social insurance scheme. Specific plans for the youth and nomadic bedouin sectors of the population are also included.

The chapter concludes with a plan to develop the judicial system to meet the growing demands placed on it by economic and social development.

A. HEALTH

The area of health is the general responsibility of the Ministry of Health and the Saudi Red Crescent Society. Under the new Plan, the Ministry of Health expects to expand its curative and preventative health services in the Kingdom. Specifically, 11,500 new beds will be added in established or new hospitals and the total number of small town and rural dispensaries will be increased by 427 from a present 215. A general upgrading is also planned in the facilities of large numbers of existing dispensaries. In addition, about 5,300 technical assistants will be graduated during the Plan and the number of health institutions and nursing schools will be doubled.

The Saudi Red Crescent Society, which provides emergency health services, will concentrate in improving its medical facilities for pilgrims in the Hajj areas and in upgrading and expanding its present clinics and centers throughout the Kingdom. During the next five years it plans to obtain 150 fully-equipped ambulances and to establish 5 new clinics and 30 new first-aid centers for emergency treatment of accident victims.

B. SOCIAL SECURITY AND SOCIAL AFFAIRS

The Ministry of Labor and Social Affairs (MLSA) plans to expand programs in the areas of social security, social welfare, community development, cooperatives, and rehabilitation. In social security, MLSA will extend its coverage to include four new areas of old-age pensions, death allowances, child allowances, and housing allowances. In social welfare, MLSA plans to establish 14 new orphanages and 2 new Institutes for the elderly. In the area of community development, 12 new rural centers and 5 urban centers will be established and staffed under the plan. Ninety new local cooperatives, 5 new Vocational Rehabilitation Centers, and 3 new Social Rehabilitation Centers will also be established.

In addition to the above programs, MLSA also intends to reorganize and expand the research facilities and activities of the al-Dir'iyah Center for Training and Applied Research.

C. SOCIAL INSURANCE

The General Organization for Social Insurance (GOSI) plans to expand the areas of worker insurance coverage it presently provides to such new fields as temporary disability and unemployment compensation, and will also expand coverage to reach at least 250,000 employees. GOSI will also work to enforce and extend application of Saudi Social Insurance Law and to maintain its operations on a financially self-sustaining basis. In addition, it plans to construct 4 new regional offices and 10 new branch offices during the next five years, and will study alternate investment strategies for its funds together with SAMA.

D. YOUTH WELFARE

Youth welfare is handled by a directorate-general within MLSA. Under the new Plan, varied cultural, artistic, athletic, and social activities will be organized and supervised, including Annual Cultural Fairs (Souk Ukaz) and an Annual Music and Folk Arts Festival. Construction of club facilities for the 53 existing registered athletic clubs is also planned, as well as the organization of a number of Kingdom-wide sporting contests. The budget for youth welfare-related programs is estimated to grow from a present total of $40.3 million to $108 million by the end of the plan.

E. BEDOUIN NOMADS

A new unit in the Ministry of Interior will be established to deal exclusively with all aspects of Bedouin development policy. This unit will design and eventually carry out projects in the areas of agriculture, health, education, social affiars, and information services. Other work of the new unit will include the review of existing legislation affecting the Bedouin, the training of competent Bedouins for positions in the staff, and the organization of an international conference on the economic and social development of nomadic populations.

F. JUDICIAL SYSTEM

The Saudi Department of Justice will act to strengthen the judicial system to enable it to process promptly in accordance with the Sharia the growing number of disputes associated with increasing prosperity and economic activity. It will increase the number of courts, increase and upgrade court staff, and expand existing facilities. A new Court of Appeal will be established in the Eastern Region, ten new ordinary courts will be established each year, and a training center will be set up.

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CHAPTER VII. PHYSICAL INFRASTRUCTURE DEVELOPMENT (PP. 494-598)

This chapter includes plans for developing the international and intercity transportation networks to accommodate projected increases in traffic, and for bringing the telecommunications and postal services to a level capable of meeting future demands. It also presents plans for developing municipalities throughout the country and for expanding the construction of standard or better housing to accommodate the growing population. The chapter concludes with a presentation of the requirements for planning the physical infrastructure necessary to handle the increasing number of pilgrims visiting Mecca and Medina.

A. ROADS

Present Conditions. There were about 5,000 miles of paved roads in Saudi Arabia in 1970, about half of which were completed during the first plan period. These new and improved roads cost about $455 thousand per mile. A maintenance program was instituted which covered over 90 percent of the paved roads. Nearly 2600 miles of rural roads were also opened during this period.

Over the past several years traffic has increased at a rate of approximately 12 percent a year, but during the next five years an annual increase of nearly 15 percent is anticipated. The number of motor vehicles is expected to increase from 200,000 to 500,000 during the same period.

Objectives and Policies. The primary objective of the Plan is to complete the main road network shown in Figure VII-I. The dotted lines show on the accompanying map the major roads planned for the period. Some of these will provide links between areas not presently connected by road, while others will strengthen already existing arteries. A significant objective of the second Plan is to provide all-weather roads on all international routes. In addition, a concerted effort is to be made to facilitate the development of agriculture as well as the mineral and industrial sectors by completing secondary roads and expanding the rural roads program.

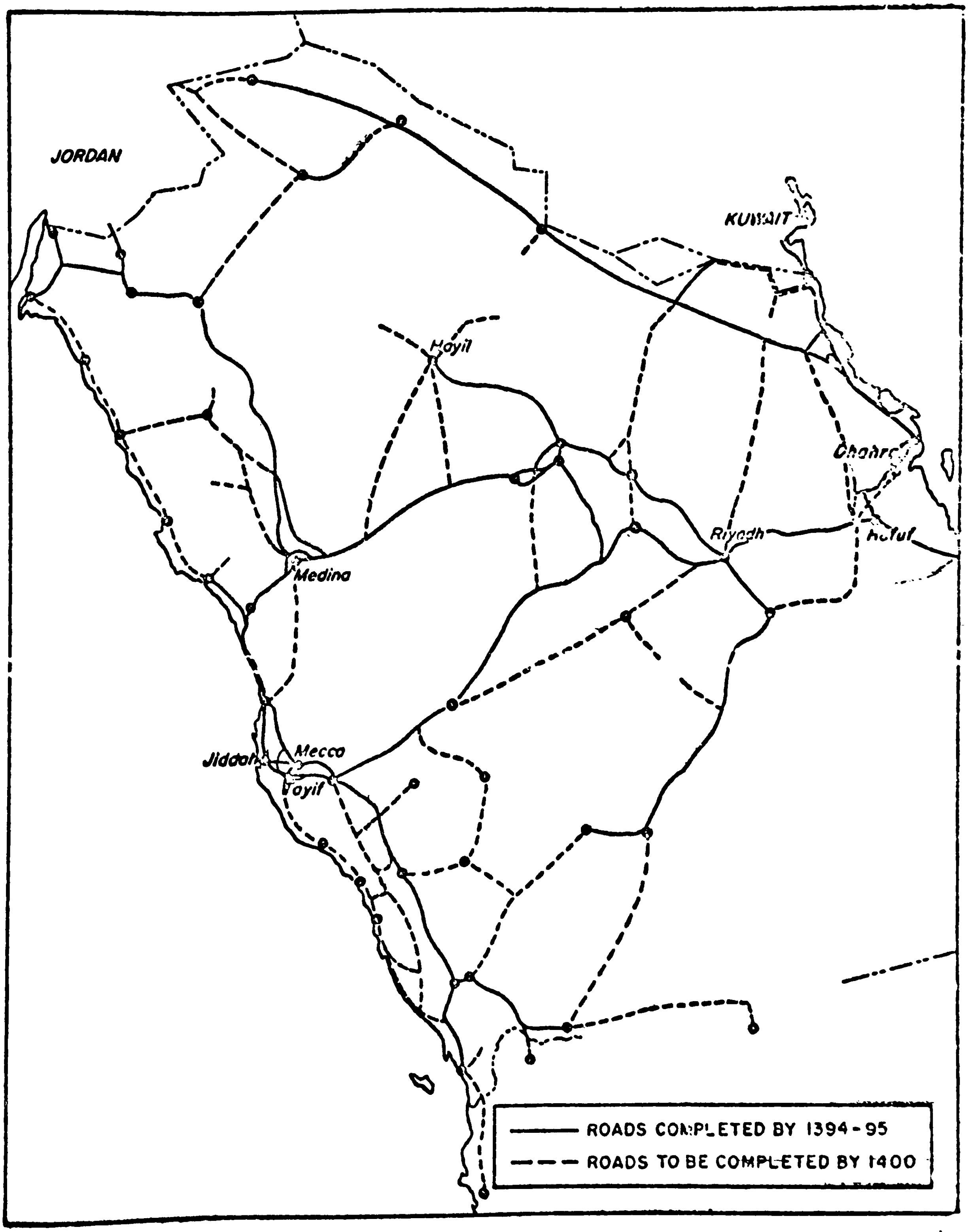

Figure VII-1
PLANNED MAIN ROAD NETWORK

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Programs and Projects

Studies and Design - During the Plan period work is to be completed on 36,000 miles of main roads, 4500 miles of secondary and teritary roads with asphalt surfaces and over 7,000 miles of earth surface roads.

Construction - The Plan projects the construction of over 8,000 miles of main, secondary, and paved feeder roads. The pace will diminish from about 23 percent of the total the first year to perhaps 15 percent in the final one. A list of the roads to be completed is included in the Plan.

Recruitment and Training - A program will be developed to train Saudi nationals to fill key positions throughout this sector. Of particular importance are efforts to establish the capability to maintain the roads.

Finance - The Plan calls for expenditures of $4 billion. The largest item is actual road construction which will account for nearly $3 billion or an average of $341 thousand per mile. A significant sum has also been earmarked for maintenance of the entire road system.

B. PORTS

Present Conditions. The major entry points for imports into the Kingdom are the ports of Jidda and Dammam: These ports are inadequate to handle the flow of goods required for the country's development and large backlogs are being experienced. Over three million tons of cargo passed through Saudi ports in 1973, with Jidda and Dammam handling two thirds of it. Exports by sea, excluding petroleum, average only 100,000 tons annually, mostly fertilizers. By 1980, it is anticipated that imports will more than quadruple, reaching over 13 million tons. The ports will have to be expanded rapidly or severe disruption of the implementation of the Development Plan will occur.

Objectives and Policies. The primary objective is, of course, to provide sufficient port capacity to handle the increasing demands of an expanding economy and the development program. These improvements can only result if adequate berthing facilities are available and if the ports operate efficiently. A secondary objective is to develop regional ports for the use of small boats and for fishing.

Programs and Projects. Expansion at Jidda will include the design and construction of 20 berths, dry dock facilities, and the improvement of the entry-exit channel with marine-guidance devices to permit 24 hour utilization. Among other items, a self propelled floating crane with a 150 ton capacity, and an electric crane with 40-70 ton capacity for handling containers will be purchased. The administration of the port will be studied to provide a basis for upgrading port operations to increase efficiency.

At Dammam, 16 berths with requisite facilities will be constructed, and an area adjacent to the port to provide space for customs, storage, operations and other purposes will be established. The entry-exit channel will be improved and the necessary marine-guidance devices installed. Within the plan period a movement will be made toward containerization. Appropriate equipment for this purpose will be purchased, together with a heavy duty self-propelled floating crane. Here to, a study is to be made of the port's management to determine how to improve the port's efficiency.

Other construction activities will be carried out at the ports of Yanbu, Jaizan, Jubail, and the Minor Red Sea and Arabian Gulf ports.

Airports

Present Conditions. Geographical factors make aviation a most important element in the Kingdom's transport network. At present 20 airports are served on a regular basis. In 1973, about 350,000 international and 800,000 domestic passenger departures by scheduled services were recorded. Scheduled service passenger departures have increased more than 20 percent annually since 1970. In 1974, SAUDIA alone performed more than 800 landings and departures every week. Jidda, Riyadh and Dhahran account for more than 90 percent of all activities. The program underway to expand airport facilities over the past few years will be continued and broadened during the Plan period.

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The Civil Aviation Department (CAD) has been severely handicapped in its efforts to manage the Kingdom's aviation activities effectively because communication facilities are poor, and there is an acute shortage of qualified personnel. Now that the military and civil aviation sectors have been separated and a five year contract has been signed for the maintenance of airport facilities for 13 airports, the CAD should be able to perform better.

Objectives and Policies. The primary objectives in developing the civil aviation sector is to upgrade, through new construction or renovation, the airports throughout the country to enable them to handle the increased traffic efficiently. To that end, communication systems will be improved, ground aids will be installed where appropriate, emergency procedures will be established and equipment provided, navigational aids will be provided and fully qualified personnel will be employed to assure that the system is properly operated and maintained.

Programs and Projects. At Jidda, complete terminal facilities for the L-1011 aircraft will be constructed at the existing airport, and a complete new airport will be constructed at Jidda before the end of the period. At Riyadh, a new airport is to be constructed following the completion of the one at Jidda. In the meantime, complete runway, taxi-way and lighting improvements will be accomplished on the present airport. At Dhahran, the terminal is to be extended, a cargo building is to be constructed and other work is to be performed to permit separation of the civil and military aviation activities. Major construction projects are also planned for airports at Medina, Tayif, Abha, Jaizan, Tabuk, Najran, Hayil, and Badanah. Many local airports will also be upgraded to assure uniformity with the design standards being established.

Other new programs and projects are planned in Aviation Safety and Control Ground. Service improvement and a possible organizational study of the CAD is proposed. The CAD will expand its headquarters and plans to upgrade and expand its training activities at the Aeronautical Training Center. Graduates of the training center are expected to nearly double during the plan period.

SAUDIA (The National Saudi Arabian Airline)

Present Conditions. SAUDIA serves as an important link in the Kingdom's transportation system, both internally and internationally. Over the past few years the accelerated growth of the economy and the rapidly increasing demands for its services has severely taxed the resources of SAUDIA. Since 1969, revenue passengers have more than doubled, including a three fold increase in the number of Hajj passengers. To service this growth the jet fleet has increased from four to 18 planes while the propeller fleet has decreased from 4 to 21. The number of employees has increased from 3,944 to 5,126 during that period, and a major reorganization of the airline's structure has been accomplished. SAUDIA currently serves 20 cities within the Kingdom as well as a number of international centers on a scheduled basis. Studies are now underway to determine the desirability of extending services to the Iberian Peninsula, East and West Africa, Malaysia and the Far East, as well as to New York.

Railroads. The Kingdom's railroad is owned, operated, and managed by the Saudi Government Railroad Organization (SGRRO), which also operates the Port of Dammam. Regular passenger and freight services run from the Port of Dammam to Riyadh, with about a 100 miles of branch lines. The Plan recommends that studies be undertaken to determine the long-term function of the railroad in the national transport system, and how this function is to be performed.

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C. COMMUNICATIONS

A. Telecommunications

Present Conditions. The first Plan included the planned installation of 137,000 telephones, provision of direct dialing between major cities in Saudi Arabia, improvement of telegraphic services, establishment of direct access to international circuits and the overall improvement of the Ministry of Communications. Progress was made during the first Plan toward these and selected goals, but the achievements were not uniform. Though completion of permanent stations was delayed, portable stations were installed, one in Riyadh and a second in Jidda.

The Ministry of Communications has contracted for the installation of a major telecommunications network which will link the seven major cities. Upon completion of a second phase of the program, 90% of the Kingdom's population is to have access to long distance telecommunications. At the current rate of demand, it is expected that the planned networks will need to be expanded again by the early 1980's. Telex lines will be installed at a rate expected to meet industry and Government requirements. Switching capability and international facilities will provide adequate capacity in the near term. Teletype will grow at a minimal rate and can be accommodated within the long distance transmission network.

Television and radio requirements will be adequately served by the currently planned system. Studies into the technical possibilities for transmitting full-color TV service throughout the Kingdom via a coaxial system are recommended.

Objectives and Policies. In the next five years the basic objective of the telecommunications plan is to provide a system of local, intra-Kingdom, and international telecommunications that will meet the demands for services implied by the overall social and economic goals of the Development Plan.

Local telephone networks are to be upgraded to provide by the year 1980 at least 20 telephones per 100 residents in the larger cities and approximately 5 telephones per 100 in the smaller communities. This will require by the end of the Plan an installed capacity of approximately 672,000 lines, of which 490,000 will be in service.

B. Postal Service

Present Conditions. Considerable progress was made by the Postal Service during the first Plan period in speeding up mail deliveries within the Kingdom and is now approaching its goal of 24-hour service for the inland mail. The morale of postal workers improved with the implementation of performance reviews. The Postal Service is still handicapped, however, by anticipated facilities and by a shortage of trained manpower. The Postal Service plans to provide all parts of the Kingdom with prompt service of unquestionable reliability. This will be accomplished by expanding the network of postal service centers, buildings and offices, and streamlining organization and administration.

D. MUNICIPALITIES

Progress made in municipal development during the first plan was substantial. The number of settlements given municipality status rose from 54 to 85. A number of other municipal facilities--including public parks, and flood prevention works were also implemented according to the first plan schedule.

Several studies were either initiated or completed in the last five years. They include: Physical studies for all five regions, including master plans for their principal cities, a master plan for the city of Riyadh, now under implementation; and beautification studies and final design for the cities of Mecca, Medina, Jidda and Tayif.

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E. HOUSING

The housing shortage in Saudi Arabia has become increasingly acute throughout the first plan period as a result of rapid urban growth, and the shortages or rising costs of labor, land, and materials for residential buildings. Approximately 75,000 standard or better urban dwellings were constructed between 1970 and 1974, compared with an estimated need for new houses and replacements of 154,000 units. Demand for new and replacement housing has been approximately double the supply and overcrowding and shanty towns have resulted.

During the second plan period total need for standard or better urban dwellings is approximately 338,000 units. New urban households will need 181,000 of this total. Housing which should be replaced owing to natural or accidental loss will account for 40,000. All of the present stock of 117,000 sub-standard or improvised dwellings should be considered candidates for replacement.

Resources for planning, building, and maintaining houses are in short supply, as are resources for the construction sector as a whole. Prices of residential land in the cities have more than doubled. Labor prices have increased dramatically, reflecting the real shortages of unskilled, skilled, and managerial labor for construction.

Capital for residential building is also difficult to obtain. Nearly all new residences are financed through savings or incomes of the owners. No private-sector institutions to plan, finance, build, and manage housing have been established to meet this need. For this reason the Real Estate Development Fund was established in 1974. The Real Estate Development Fund has been empowered to lend to individuals and corporate entities who want to build or purchase housing, to enter into joint agreements with municipalities for the development of profitable residential or commercial projects, and to assist employers in the construction of housing for their employees.

In addition to the customary problems of housing the country's citizens and expatriot workers, Saudi Arabia plays host to a large number of religious pilgrims. The total number of pilgrims has increased from approximately one million in 1970 to almost 1,400,000 in 1974. Approximately 50% of the non-Saudi pilgrims arrived by air. The basic long-range objective of Saudi Arabia is to develop physical infrastructure and services that will enhance the spiritual experience of pilgrims on the Hajj and visitors to the holy city of Medina.

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CHAPTER VIII. PLAN MANAGEMENT AND IMPLEMENTATION (PP 598-663)

The first section of this concluding chapter discusses the size of the Plan in terms of its financial, manpower, and construction requirements, and the problems of the implementation that will arise due to the magnitude of the total requirements.

Plans for providing the statistics, maps, meteorological data, and standards and specifications needed to support development planning are then presented, followed by a strategy for developing science and technology to support progress toward national goals.

The remaining sections are concerned with central planning, measures to expand the capability of the public and private sectors to implement the Plan and steps being taken to enlist international cooperation in the development of the Kingdom.

Highlights

The second Development Plan calls for public expenditures of about $142 billion, almost nine times that projected for the first Plan. The attached table (Chapter VIII, Table 1) shows the estimated financial requirements of the first and second Plans.

It is noted that relevant and accurate statistical information will play a key role in the efficient facilitation and implementation of the Plan. In September 1974, the Central Department of Statistics undertook a comprehensive population and housing census of the Kingdom. The results of the census are scheduled to be published in April 1976. It can be expected that the National Computer Center, which is a part of the Central Department of Statistics, will be used

Table VIII-1

COMPARISON OF ESTIMATED FINANCIAL REQUIREMENTS
OF FIRST AND SECOND PLANS
($ Millions)

	First Plan		Second Plan		Ratio: Second Plan to First Plan
	Amount	Percent	Amount	Percent	
Economic Resource Development	$1,714.0	10.7	$26,174.7	18.5	15.3
Human Resource Development	$2,897.4	18.1	$22,762.8	16.1	7.9
Social Development	$694,034.0	4.4	$9,435.5	6.7	13.6
Physical Infrastructure Development	$4,001.9	25.1	$32,086.5	22.7	8.0
Subtotal, Development	$9,307.3	58.3	$90,459.2	63.9	9.7
Administration	$2,973.4	18.6	$10,846.4	7.7	3.7
Defense	$3,691.7	23.1	$22,203.6	15.7	6.0
External Assistance, Emergency Funds, Food Subsidies, and General Reserve		-	$18,033.6	12.7	-
Subtotal, Other	$6,816.7	41.7	$51,083.5	36.1	7.7
Total Plan	$15, 972.5	100	$141,542.7	100	8.9

Note: First plan values have been adjusted to 1394-95 prices (used uniformly for the second Plan except for certain long-term projections that included inflation factors.)

Subtotals and totals may not add due to rounding after conversion from SRto $.

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more extensively not only for the storage and computations of statistical data but also for the preparation of budgetary and payroll matters for all government ministries and on a time available basis for the private sector. The Plan states that extensive efforts will be made to update and modernize maps of Saudi Arabia and also meteorological stations and the analysis of these data.

The Saudi Arabian Standards Organization was established in 1972 to (a) develop standard specifications for quality control of imported and domestic materials and products, (b) administer an inspection system to insure conformance to such standards, and (c) administer a system of national trademarks and certifications of manufacturers. The Plan states that procedures and capabilities for the development and enforcement of standards are to be developed during the next five years.

The Plan notes the need for a national plan for the effective use of science and technology for the immediate development priorities of the Kingdom. The awarding of research grants, both to Saudi and foreign institutions, is to be encouraged as a means of addressing problems particular to Saudi needs. As well, the Plan recommends the creation of a science and technology center which would be responsible for implementing and coördinating scientific and technological objectives, projects, and laboratories in the Kingdom.

The Plan states that the cooperation of international agencies and both developed and developing countries will be needed to successfully transform Saudi Arabia into a modern industrial society. In addition to the United Nations Development Program and the International Bank for Reconstruction and Development, Saudi Arabia has bilateral cooperation agreements with sixteen countries, including the United States. Bilateral agreements with four additional countries are under consideration.

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FOR RELEASE UPON DELIVERY

STATEMENT OF THE HONORABLE CHARLES A. COOPER
ASSISTANT SECRETARY OF THE TREASURY
BEFORE THE SUBCOMMITTEE ON INTERNATIONAL ECONOMIC POLICY
OF THE HOUSE FOREIGN AFFAIRS COMMITTEE
2:00 P.M. OCTOBER 23, 1975

I am glad to have the opportunity to appear today before this Committee. Rather than attempting to be comprehensive about the international goals of the United States, I should like to draw your attention to certain points which seem to me to be particularly worth emphasizing and on which my own experience gives me some basis for judgment.

In introduction, I would like to note that in reflecting on the views of some of my colleagues on international economic issues, I have been struck by the degree to which the phrase "foreign economic policy" appears to imply a sense of active interventionism. It is not clear to me, however, that an activist approach to foreign economic policy is necessarily appropriate for the United States. Clearly the United States should join with other nations in establishing and maintaining rules of conduct which effectively limit so-called beggar-thy-neighbor practices. A sound and well-functioning U.S. economy also benefits the rest of the world; whereas an erratic, inflationary, or stagnant U.S. economy is disruptive to others as they seek to promote their own prosperity. I'm not sure what else is required beyond these two fundamental requirements of international economic relations, both of which are as demanding as they are important.

Once a government accepts additional obligations, however, the situation can become very different and a more activist policy apparently irresistible. For example, if a country intervenes in the exchange market in such a way as to affect the level of the exchange rate, then it perforce must have an "exchange rate policy" and an exchange rate objective. If many countries do so, this in turn means that there will be national views and interests on what economists call the question of the appropriate "adjustment mechanism." The adjustment problem arises under pegged rates, since when rates are fixed, a smooth functioning international monetary system requires a reasonable degree of agreement on such questions as the allocation of responsibilities to adjust to mutual payments imbalances and the degree to which underlying payments imbalances should be financed or adjusted. Without such an international adjustment process, exchange rates can move out of line with basic market forces, producing major distortions in economic relationships, or become otherwise unsatisfactory to one of the two countries to which the exchange rate applies or to a third country. In such a world, it also becomes necessary for countries to have some kind of a policy with respect to reserve accumulations and to international borrowing carried out to support their exchange rate.

In the same way, once a government begins to intervene in other aspects of international trade and investment, with some positive objectives designed to affect its international competitive position, it will soon find itself with other problems of international economic policy because such actions will clearly have repercussions on other governments.

I recognize that the policy of basic reliance on market forces, rather than governmental intervention in the exchange markets, may be most appropriate for a large continental economy such as that in the United States, or, with respect to the outside world, for a group of countries which have become an effective monetary and trading area with a large internal market. Smaller nations may find their governments under more pressure to intervene with a view to maintaining their exchange rates and other factors affecting their international transactions in some desired relationship to larger economic entities that are particularly important to their economies. But in terms of the international goals of the United States, I suggest that it is well to bear in mind as a basic principle that government intervention is required essentially to promote satisfactory domestic economic performance. Our policy toward the exchange rate of the dollar should be seen in this light. We are not so naive as to believe that private markets always work perfectly. But the philosophy of our intervention policy is to aid the functioning of the private market and avoid the emergence of disorderly conditions, not to attempt to supercede the market and set a particular government objective for the level of the exchange rate.

Against the background of this broad perspective, I should like to offer some comments on several of the subjects that have been actively debated and discussed in the sphere with which my branch of the Treasury is most closely concerned.

Exchange Rates

The first such comment relates to the future of exchange rates. While the experience of the last five or ten years makes it quite obvious that new and unanticipated problems can and do arise with disturbing frequency, I do believe that it is possible to make some judgments on underlying trends. Whatever may happen, in most countries maintenance of a fixed exchange rate seems not likely to be as sacrosanct a principle as it was before 1971. Too many changes in exchange rates have taken place without adverse consequences for international trade and investment. The psychological nimbus surrounding exchange rates no longer has the same significance on public policy. It has been shredded by a series of pragmatic developments in exchange rate relationships. This change in international psychology is too profound and too fundamental to ignore.

As a result, while some countries will continue to maintain intervention policies and restrict the market movements of the "exchange rates," the system as a whole can be expected to have more rate flexibility than was the case in the past. International financial markets have become closely interconnected. International movements of funds are potentially large, and these funds can shift rapidly from one currency to another. As a result, monetary authorities may well be overwhelmed if they attempt to resist market pressures directed toward a more realistic exchange rate. Countries are faced with the necessity of acquiring or spending large amounts of reserves or incurring very large amounts of obligations to other countries to sustain such resistance, and of dealing with the domestic monetary consequences of exchange market intervention. Even if they wish to counter the market pressures, the cost of doing so has become very much more expensive and the possibility of success more problematical. I might also add my guess that substituting agreed rate ranges, or permissible rates of change, is not likely to make the job much easier. At the margin, the problem will still be there.

A second consequence relates particularly to the psychology of the public and the attitudes of public officials. In the past, the defense of an exchange rate has at times assisted in building public support for unpopular but necessary measures to restrain domestic inflation. Tighter monetary policies, restraint of public expenditures and even controls on trade and capital movements have been applied in defense of exchange rates. Whether we like it or not, the events of the past few years make it unlikely that the attempt to maintain a given exchange rate at a fixed level will again have the same kind of impact on domestic policies that it may have had in a number of countries in the past. Nostalgia for the discipline of the rate should not blind us to the likelihood that its heyday is well behind us.

As a footnote, we can discern indications that countries do indeed experience and take into account the domestic effects of a rapidly depreciating (appreciating) exchange rate and its domestic inflationary (deflationary) consequences. However, they will be inclined to judge such situations more in terms of an economic calculation that balances the domestic costs and the benefits of attempts to slow down the rapidity of exchange adjustment, rather than pursuing an all-out resistance to rate changes.

Gold

My second observation concerns the evolution of the role of gold. Just as the events of recent years have inevitably brought more flexibility into the exchange rate system of the future, it seems to me there is a clear historical trend that is moving gold away from the center of the international monetary system. Gold coins were in general circulation prior to World War I. In the United States and some other countries paper money was redeemable internally into gold until the great depression of the '30s. After 1933, gold was restricted to a settlement medium among national monetary authorities and no longer paid out to domestic citizens. Private markets in gold were suppressed in some countries between the '30s and the '70s, emblematic of an attempt to limit gold to a narrow and specific international monetary function.

Beginning in the '60s, the role of gold as an international settlement medium largely atrophied. Apart from some out-payments of gold by the United States to other countries before 1971, and a few isolated transactions among other countries, very limited use has actually been made of gold as an international settlement medium. More and more gold has become a commodity that is traded in the private market. In 1968, the last attempt to maintain a monetary price of gold in the private market was given up and the two-price system emerged. At the end of last year, the United States once again allowed its citizens to deal in gold as a commodity without official restraint. The Interim Committee has agreed to terminate the official restraint IMF price of gold in forthcoming amendments, and to make available some of the Fund's gold to provide additional assistance to developing countries. In my view, this agreement reflects rather than establishes the fact that central banks are not likely to acquire large amounts of gold from each other or from the market in view of its uncertain and fluctuating value even when they are free to do so.

At this juncture, monetary authorities hold large amounts of gold which is not easily mobilizable as a useful financial asset in part because its market price is so uncertain. In the market, however, the price today is a function of expectations about the price tomorrow which itself depends on how monetary authorities manage their stocks. This is not a comfortable equilibrium -- particularly when industrial and artistic demand for gold has been sharply curtailed by the abrupt increase in its price from $35 per ounce in 1968 to highs of nearly $200 last year, and when it isn't clear who it is anymore that believes in its "intrinsic value." The glitter of gold has always been a psychological phenomenon -- and that glitter is far dimmer today than in previous eras. Monetary authorities will not want to see gold vanish from the international financial scene overnight, but neither can its central role be sustained. History is inexorably moving it from the center to the fringes of the system.

While a less golden future seems inevitable, it must be admitted that we do not see clearly as yet just how the future will find international settlements being carried out or what the roles of official assets and official credit will be. To the extent that intervention by governments is more limited than in the past because of the increased flexibility of exchange rates, the need for official credit or reserves is itself reduced. In the absence of a par value system supported by convertibility, the concept of official settlements becomes blurred. For many years intervention and most official international transfers have been conducted in dollars or in other currencies of a few major countries. Transfers in the form of currencies have been supplemented by transfers of claims on the books of the International Monetary Fund. Reserves and credit supplied by the IMF are supplemented by numerous credit arrangements among monetary authorities and may be supplemented further in the future, among the industrial countries, by credit from the Financial Support Fund, now being considered by the legislative bodies of the United States and other OECD countries. It seems most likely that no single currency will become the exclusive means of settlement, and that no single institutional mechanism will become the exclusive source of reserves or credit. The system is likely to evolve in whatever way best meets with the needs that remain for international settlements among monetary authorities. Those needs are not yet clear, but as they emerge the system will adapt itself to them.

Beggar-Thy-Neighbor Policies

Having commented on two aspects, exchange rates and gold, where the trend seems to me to be away from international rules and regulations, my third observation relates to a sphere of activity in which international rules and regulations may become even more important. Beggar-thy-neighbor policies, which embrace unfair and undesirable competitive practices, continue to be a sphere in which international rules and principles of behavior need if anything to be strengthened. They need to be strengthened not in the direction of more governmental intervention, however, but rather in the direction of discouraging such intervention or off-setting its unintended consequences. The historical trend in domestic economics is towards more public intervention to implement a wide variety of social and political objectives. And there is, I'm afraid, some evidence that there are new or growing temptations to individual governments to become more interventionist, in order to further their export interests or to attract desirable foreign investment.

To begin with, more flexibility in exchange rates itself can offer a temptation to countries to intervene asymmetrically -- that is, either to accumulate reserves over time by intervening to hold down their exchange rate, or to engage in official borrowing abroad and spending the proceeds to keep their exchange rates artificially high. Thus far this problem has not become particularly troublesome, but it remains an area where international understandings are very important.

Another problem of fair international competition which has become of increasing importance in recent years is that of officially supported export credits. Recent years have seen very substantial increases in official export credit programs. Economists by and large have seen these programs as distorting optimal trade patterns and burdening domestic consumers with unnecessary subsidies to exporters. But the problem is one that only international agreement can resolve. In a world of official export credit programs, only the country that unilaterally cuts its own tariffs is likely to unilaterally dismantle its export financing programs. Once several major countries have entered the field, all countries have lost their ability to determine their own policy in the absence of international agreement. I believe it to be very much in the interest of the United States, as well as the common interest, for exports to be determined by market competition in price, delivery, quality, and other economic factors, and not to be determined by competition among governments on the volume, rates and maturities of official export credits. Negotiations on a Gentlemen's Agreement as a first step towards establishing agreed international rules in this area have not yet been successfully terminated. I hope this can be accomplished in the near future.

Similar problems of a special nature may arise in trade with centrally planned economies and I believe further attention to establishing effective international rules in this area is warranted. I am pleased to note in regard to market disruption that the Trade Act of 1974 includes provisions for prompt consultations whenever actual or prospective imports from non-market economy countries are causing, or threatening to cause, market disruption within a domestic industry. Special efforts must also be made to ensure that in developing bilateral commercial relations with the non-market economy countries that we do not jeopardize the framework of multilateralism so important to increased efficiency in international trade.

Finally, in the MTN negotiations certain non-traditional problems have become of great importance. Access to supplies has perhaps replaced access to markets as a source of public concern and certainly international understandings in this area need development. And in the traditional access to market area, special attention is appropriately being given to the very difficult problem of codes of conduct to regulate the use of non-tariff barriers including safeguard arrangements.

In short, beggar-thy-neighbor problems remain at the forefront of the international agenda.

Developing Countries

So much has recently been written and said about U.S. relations with developing countries that I hesitate to add to the record. In particular, I would like to draw the Committee's attention to Secretary Simon's remarks on this subject yesterday in his testimony before the Senate Foreign Relations Committee.

I would like today simply to make two points:

First, that there is no such thing as future prospects for developing countries in general. Some will prosper over the next decade; others will not. Differences in economic and social performance among LDCs will reflect their domestic situations and policies much more than the differential impact of developments outside their borders.

Second, U.S. policy towards developing countries inevitably reflects both our interest in good political relations with them, and our long-run interest in assisting their economic and social progress. These interests do not always coincide. For example, a greater degree of benign neglect by the U.S. of the expropriatory actions of individual developing countries might in the short run smooth our political relations with them -- but such a policy would result in a cutback in new private direct investments in LDCs generally, thereby damaging the economic interests of countries who urgently need and want such flows.

More important to the economic prospects of developing countries than what others do is the effect such actions have on their own policies and efforts. Our aid, in whatever form, can help, but it simply can't do the whole job, or even the major part of it. And the dimensions of the economic and social challenges faced by many LDCs are such that we must be very careful not to delude ourselves or others about the degree to which we can help.

The U.S. has been, and should continue to be generous and forthcoming in its relations with developing nations, both collectively and severally. I believe Americans generally feel a basic humanitarian concern with the plight of the poor in the developing countries. And our conviction that improved economic and social conditions in LDCs very much serve U.S. interests is well-founded. But in our policy approach in this area it is absolutely essential that we be frank and realistic about the contribution that we and other industrial nations can make to what must be seen as a long-term process of increasing productivity not as a short-term distributional disequilibrium.

Conclusion

Professor Kindleberger, who testified earlier in these Hearings, once offered some wise advice on international financial matters which I found to be memorable. His succinct admonition was, as I recall, "Don't just do something, stand there." This is never easy advice to follow -- and certainly not in present circumstances when the world is struggling to absorb the impact of the recent oil price increases and to emerge from a particularly serious and stubborn recession. But in carrying out our international economic relations, even in present circumstances, it is as important to avoid over-reacting and to focus international efforts where they can be most useful. Moreover, for the United States establishing and maintaining sound and effective domestic economic policies will make a greater contribution to worldwide economic welfare than trying to assume responsibilities for the world's economic ills on a scale that we cannot in fact discharge.

It is very important that in addressing the problems of the future we not allow ourselves to be overwhelmed by the problems of the day. The recent performance of the U.S. economy is a good indication that recovery from the present recession is on its way. While I believe the economic impact of the oil price increases is still working itself out, I don't think that economic progress has been stopped in its tracks. There is every reason to anticipate not only recovery but a vigorous expansion in the world economy -- and an expansion the benefits of which will again be widely shared. The U.S. will continue to play a constructive and forthcoming role in assuring such an outcome.

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FOR IMMEDIATE RELEASE
THURSDAY, OCTOBER 23, 1975

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Amendments to the nondiscrimination regulations of the general revenue sharing program were filed by the U. S. Treasury Department's Office of Revenue Sharing with the Federal Register this week and are now in effect. The amendments are expected to be published in the Register on Tuesday, October 28, 1975.

The purpose of the new regulations is to assist States and units of local government to spend general revenue sharing funds in accordance with the nondiscrimination provisions of the State and Local Fiscal Assistance Act of 1972 (P.L. 92-512) which established the general revenue sharing program. They are intended to strengthen the Office of Revenue Sharing's Compliance program and to provide further guidance to recipient units of State and local government with respect to their responsibility for nondiscrimination in the use of shared revenues.

Some of the highlights of the new regulations are as follows:

-- Recipient governments are encouraged to use general revenue sharing funds to correct imbalances in the provision of public services or facilities resulting from prior discriminatory practices. Where a program is funded with shared revenues, jurisdiction by the Office of Revenue Sharing is established; and imbalances must be corrected.

Specific examples of discriminatory uses of the funds are given, with the proviso that the list furnishes examples and is not intended to be exhaustive.

Recipient governments may not discriminate in programs funded in whole or in part with general revenue sharing funds in any employment practices. Employment compliance reviews will be scheduled by the Office of Revenue Sharing where programs funded with shared revenues show a significant disparity between the percentage of minority or women employees and the percentage of minority persons or women in the work force.

The Office of Revenue Sharing intends to use the employee selection guidelines of the Equal Employment Opportunity Commission as a point of reference in determining whether a selection procedure that excludes a disproportionate percentage of women or minorities is a lawful job-related employment selection device. Recipient governments using selection procedures which are not in conformity with the EEOC guidelines shall, upon request of the Secretary of the Treasury, set forth the reasons for such nonconformity, and if necessary, the actions the recipient government is taking or will take to assure that its selection procedures are job-related.

-- Recipient governments are requested to maintain a continuous program of self-evaluation to assure that their recruitment, employee selection and promotion policies are nondiscriminatory.

-- Employees of both sexes shall have an equal opportunity to obtain any job that persons of either sex may be qualified to perform. The regulations provide detailed guidelines on recruitment and employment practices. Matters such as marital and family status and the provision of fringe benefits are specifically addressed.

- In order to qualify for any payment in any entitlement period, the Chief Executive Officer of each recipient unit of government shall be required to file with the Treasury Department an acceptable assurance that all programs to be funded in whole or in part with shared revenues will be conducted in compliance with provisions of revenue sharing law and regulations relating to nondiscrimination. Any government which does not file such assurances shall have its entitlement payments withheld for the applicable entitlement period. Governments so affected shall be entitled to a hearing, but the entitlement funds in question will continue to be withheld pending the outcome of the hearing.

The regulations specify certain types of information which must be made available to the Office of Revenue Sharing upon request, in order to facilitate enforcement of the nondiscrimination provisions of revenue sharing law.

Detailed information is provided to inform persons how they may file complaints of discrimination against recipient governments. The Office of Revenue Sharing's investigatory procedures and procedures for effecting compliance are set forth in detail, as well.

The Treasury Department immediately may withhold the payment of entitlement funds to a recipient government pending the entry of an affirmative action order by a Federal court if: (1) a violation of the nondiscrimination provisions of revenue sharing law and regulations was alleged in the complaint before the court; (2) the court finds that the recipient government violated the nondiscrimination provisions of the law or regulations; and (3) the question of withholding was not resolved by the court.

The new amendments to the revenue sharing regulations are the product of months of careful review and study by concerned Federal agencies and public and private interest groups. A draft of proposed amendments to the regulations was published by the Office of Revenue Sharing in the Federal Register in July of this year. Any and all interested parties were invited to comment. The 54 comments that were received are available for public inspection in the Treasury Department Library at 15th Street and Pennsylvania Avenue, Northwest, in Washington, D.C. Copies may be made for a nominal charge.

The Office of Revenue Sharing will provide copies of the new regulations to all interested parties upon request. The full set of revenue sharing regulations, as amended, will be printed and distributed to all governments that receive general revenue sharing funds, all Members of Congress, and many public and private associations including, especially, human rights organizations and agencies.

Other Office of Revenue Sharing publications will be revised to incorporate the new nondiscrimination requirements. The most frequently-requested booklets will be translated into Spanish, as well.

The new material will be incorporated into a Guidebook for state and local governments being prepared by the Equal Employment Opportunity Commission and the Office of Revenue Sharing in a joint undertaking. The book will cover nondiscrimination both in employment as well as in the provision of public services.

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"Every effort will be made to give our nondiscrimination regulations the widest possible distribution," John K. Parker, Acting Director of the Office of Revenue Sharing, said in announcing publication of the new requirements.

Some $22 billion in general revenue sharing funds has been paid nearly 39,000 units of state and local general-purpose government since the first checks were mailed, in December 1972. As presently authorized, the program will have distributed a total of $30.2 billion within five years, from 1972 through December 1976.

President Ford has asked the Congress to renew general revenue sharing past its present 1976 deadline.

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e Department of the TREASURY NEWS
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October 24, 1975

Contact Point:
H. Hervey
Extension 2256
Linda Potts
Extension 2951

FOR IMMEDIATE RELEASE

DETERMINATION OF SALES AT NOT LESS THAN FAIR VALUE ON RECHARGEABLE SEALED NICKEL-CADMIUM BATTERIES FROM JAPAN

Assistant Secretary of the Treasury David R. Macdonald announced today a determination that rechargeable sealed nickel-cadmium batteries from Japan are not being, nor are likely to be, sold at less than fair value within the meaning of the Antidumping Act, 1921, as amended. Notice of this decision will appear in the Federal Register of October 24, 1975.

A "Withholding of Appraisement Notice", excluding therefrom that merchandise produced and sold by Matsushita Electric Industrial Company, was published in the Federal Register of July 24, 1975. A statement of reasons was published in that notice and interested persons were afforded an opportunity to make written submissions and to present oral views. Counsel for the other exporter investigated, Sanyo Electric Trading Company, Ltd., provided additional information which indicated that further adjustments to the home market price were justified for direct labor and assembly costs. Taking these adjustments into consideration, comparisons between purchase price and home market price indicated that purchase price was not less than home market price.

During the period August 1, 1974, through August 31, 1975, imports of the subject merchandise from Japan were valued at roughly $2,718,000.

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Contact: Robert E. Harper
634-5377

FOR IMMEDIATE RELEASE OCTOBER 23, 1975

TREASURY SECRETARY SIMON NAMES JOHN F. O'NEILL
AS NEW SAVINGS BONDS CHAIRMAN FOR NEBRASKA

John R. O'Neill, Chairman of the Board and President, Lincoln Mutual Life Insurance Co., Lincoln, is appointed Volunteer State Chairman for the Savings Bonds Program in Nebraska by Secretary of the Treasury William E. Simon, effective immediately.

He will head a committee of business, banking, labor, government and media leaders who -- in cooperation with the U. S. Savings Bonds Division -- assist in promoting Bond sales throughout the state.

O'Neill was graduated from Creighton University, Omaha, with a BS degree, in 1948. His college career, which began at Dartmouth College, was interrupted by service with the Navy, from 1943 to 1946. He joined Lincoln Mutual Life in 1956. After serving as Executive Vice President and Director of Agencies, he was named President in 1965. He was elected to the additional post of Chairman of the Board in 1973.

He is active in many business and civic activities, including -- past President, Insurance Institute of Nebraska; past District Governor, Serra International; Director, American Life Insurance Association; Director, State Federal Savings and Loan Association of Beatrice; Director, Lincoln Council on Alcoholism; Director, Lincoln Chamber of Commerce; Director, Nebraska Association of Commerce and Industry, and Member, Executive Council, Insurance Federation of Nebraska. He served the Bond Program previously as Lincoln "Take-Stock-in-America" Chairman, in 1973 and 1974.

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O'Neill and his wife, Jacqueline, have two daughters and three sons -- Cynthia, living in Norfolk, Nebr., and Mary, at home; Michael, living in Omaha; Patrick, attending Creighton U., and John, attending the University of Nebraska.

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13-wk		26-wk
5.887	Last auction	6.156
5.685	To-day	5.974
5.665	Low since 6/23/75	5.935

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FOR IMMEDIATE RELEASE October 24, 1975

RESULTS OF TREASURY'S WEEKLY BILL AUCTIONS

Tenders for $3.0 billion of 13-week Treasury bills and for $3.2 billion of 26-week Treasury bills, both series to be issued on October 30, 1975, were opened at the Federal Reserve Banks today. The details are as follows:

RANGE OF ACCEPTED COMPETITIVE BIDS:	13-week bills maturing January 29, 1976			26-week bills maturing April 29, 1976		
	Price	Discount Rate	Investment Rate 1/	Price	Discount Rate	Investment Rate 1/
High	98.571 a/	5.653%	5.83%	96.998	5.938%	6.22%
Low	98.561	5.693%	5.87%	96.969	5.995%	6.29%
Average	98.563	5.685%	5.86%	96.980	5.974%	6.26%

a/ Excepting 1 tender of $6,000,000

Tenders at the low price for the 13-week bills were allotted 100%.
Tenders at the low price for the 26-week bills were allotted 31%.

TOTAL TENDERS RECEIVED AND ACCEPTED BY FEDERAL RESERVE DISTRICTS:

District	Received	Accepted	Received	Accepted
Boston	$ 33,570,000	$ 27,770,000	$ 22,960,000	$ 17,960,000
New York	3,723,925,000	2,540,480,000	4,108,005,000	2,882,355,000
Philadelphia	27,225,000	27,225,000	8,190,000	8,190,000
Cleveland	41,690,000	41,690,000	36,265,000	11,265,000
Richmond	32,080,000	29,580,000	52,215,000	33,715,000
Atlanta	32,500,000	30,870,000	27,190,000	23,690,000
Chicago	228,790,000	65,280,000	180,380,000	35,870,000
St. Louis	41,935,000	26,935,000	37,195,000	32,195,000
Minneapolis	29,805,000	23,805,000	51,255,000	26,255,000
Kansas City	32,685,000	30,270,000	17,985,000	14,485,000
Dallas	40,955,000	20,455,000	28,170,000	20,670,000
San Francisco	371,880,000	136,880,000	280,335,000	154,335,000
TOTALS	$4,637,040,000	$3,001,240,000 b/	$4,850,145,000	$3,200,985,000 c/

b/ Includes $428,005,000 noncompetitive tenders from the public.
c/ Includes $179,210,000 noncompetitive tenders from the public.
1/ Equivalent coupon-issue yield.

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Department of the TREASURY NEWS
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1263

CONTACT: GEORGE G. ROSS
202/964-5985
October 28, 1975

FOR IMMEDIATE RELEASE

UNITED STATES AND ARAB REPUBLIC OF EGYPT SIGN INCOME TAX TREATY

Secretary of the Treasury William E. Simon and Egyptian Minister of Economy and Economic Cooperation Dr. Mohammed Zaki Shafei today signed an income tax treaty between the United States and the Arab Republic of Egypt. There is presently no such treaty in force between the two countries. The treaty will be submitted to the United States Senate for ratification.

The primary objective of the convention is to promote economic and cultural relations between the two countries and to foster a more rapid rate of economic development in Egypt by removing tax barriers to the flow of goods and investment and the movement of businessmen, technicians and scholars. It establishes rules for the taxation of business, personal service and investment income earned by residents of one country from sources in the other. The treaty provides also for non-discriminatory tax treatment and reciprocal administrative cooperation to avoid double taxation.

The proposed treaty with Egypt is similar in most essential respects to other recent United States income tax treaties. There are several variations which, in general, either reflect Egypt's status as a developing country by minimizing any adverse revenue impact on Egypt, or which are designed to accomodate particular features of Egyptian law.

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The Department of the TREASURY NEWS
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FOR RELEASE 11:00 A.M.
TUESDAY, OCTOBER 28, 1975

SUBMISSION OF INTERIM REPORT TO THE CONGRESS ON
FOREIGN PORTFOLIO INVESTMENT IN THE UNITED STATES

The Treasury Department today submitted an interim report to the Congress on its study of foreign portfolio investment in the United States. The study is being conducted pursuant to the Foreign Investment Study Act of 1974 (P.L. 93-479), under which the Treasury and Commerce Departments are directed "to conduct a comprehensive, overall study of foreign direct and portfolio investment" in this country. The Act gives the Secretary of the Treasury responsibility for that part of the study relating to foreign portfolio investment while the Secretary of Commerce is to cover foreign direct investment.

The term "foreign portfolio investment" generally refers to foreign investments in U.S. securities that do not involve any significant influence on the management of the enterprise. The definition used for the purpose of this study covers investments in the United States in voting stocks involving less than 10 percent ownership by the foreign investor, in non-voting stocks and in debt instruments with maturities of more than one year by persons residing in foreign countries.

A major part of the Treasury study is the collection of statistical data on foreign portfolio investment in this country. Questionnaire forms were mailed out early this year, and more than 10,000 reporters have responded. The interim report presents partial information obtained from the forms that have been processed thus far. Some highlights of these findings are:

-- The total value of foreign portfolio investment represented by the reports processed so far was about $73 billion as of December 31, 1974. Taking account of reports not yet processed, the total of all foreign portfolio investment in the United States as of end-1974 was probably on the order of $80-85 billion. This figure is substantially higher than previous estimates.

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-- The total was approximately equally divided among corporate stocks, private debt instruments, and U.S. Government bonds and notes.

-- Nearly all of the foreign-held U.S. private securities were held by foreign private holders while nearly all of the foreign-held U.S. Government securities were held by official institutions, e.g., central banks.

-- Recorded residences of foreign private holders of U.S. securities were heavily concentrated in a few countries. Nine countries accounted for nearly 90 percent of the total and over half of the total was accounted for by Switzerland, the United Kingdom and Canada.

-- The recorded holdings of oil exporting countries were relatively small, with the OPEC countries as a whole accounting for about 3 percent of the total.

-- Over two-thirds of the recorded foreign private holdings of U.S. private securities was held by foreign banks, brokers and other nominees, much of which was presumably for the account of other persons and institutions.

-- Foreign holdings of private U.S. securities were fairly well diversified among the various U.S. industries, particularly in the case of stocks.

The Treasury has also been engaged in a comprehensive research program on a number of institutional, economic, and legal aspects of foreign portfolio investment as required by the Act. This report includes preliminary information from research on the motivations of foreign portfolio investors, factors in their decision-making with respect to investments here, the channels they use, and the influence of U.S. and foreign laws on their activities. Preliminary comments on the adequacy of current reporting requirements are also included.

The report notes that the study is not yet completed and cautions against drawing conclusions on the basis of partial information. The conclusions and recommendations of the Treasury Department will be submitted in the final report in April, 1976.

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FOR RELEASE AT 4:00 P.M. October 28, 1975

TREASURY'S WEEKLY BILL OFFERING

The Department of the Treasury, by this public notice, invites tenders for two series of Treasury bills to the aggregate amount of $6,500,000,000 , or thereabouts, to be issued November 6, 1975, as follows:

91-day bills (to maturity date) in the amount of $3,200,000,000, or thereabouts, representing an additional amount of bills dated August 7, 1975, and to mature February 5, 1976 (CUSIP No. 912793 YS9), originally issued in the amount of $3,001,585,000, the additional and original bills to be freely interchangeable.

182-day bills, for $3,300,000,000, or thereabouts, to be dated November 6, 1975, and to mature May 6, 1976 (CUSIP No. 912793 ZF6).

The bills will be issued for cash and in exchange for Treasury bills maturing November 6, 1975, outstanding in the amount of $5,803,445,000, of which Government accounts and Federal Reserve Banks, for themselves and as agents of foreign and international monetary authorities, presently hold $2,632,405,000. These accounts may exchange bills they hold for the bills now being offered at the average prices of accepted tenders.

The bills will be issued on a discount basis under competitive and non-competitive bidding, and at maturity their face amount will be payable without interest. They will be issued in bearer form in denominations of $10,000, $15,000, $50,000, $100,000, $500,000 and $1,000,000 (maturity value), and in book-entry form to designated bidders.

Tenders will be received at Federal Reserve Banks and Branches up to one-thirty p.m., Eastern Standard time, Monday, November 3, 1975. Tenders will not be received at the Department of the Treasury, Washington. Each tender must be for a minimum of $10,000. Tenders over $10,000 must be in multiples of $5,000. In the case of competitive tenders the price offered must be expressed on the basis of 100, with not more than three decimals, e.g., 99.925. Fractions may not be used.

Banking institutions and dealers who make primary markets in Government

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securities and report daily to the Federal Reserve Bank of New York their positions with respect to Government securities and borrowings thereon may submit tenders for account of customers provided the names of the customers are set forth in such tenders. Others will not be permitted to submit tenders except for their own account. Tenders will be received without deposit from incorporated banks and trust companies and from responsible and recognized dealers in investment securities. Tenders from others must be accompanied by payment of 2 percent of the face amount of bills applied for, unless the tenders are accompanied by an express guaranty of payment by an incorporated bank or trust company.

Public announcement will be made by the Department of the Treasury of the amount and price range of accepted bids. Those submitting competitive tenders will be advised of the acceptance or rejection thereof. The Secretary of the Treasury expressly reserves the right to accept or reject any or all tenders, in whole or in part, and his action in any such respect shall be final. Subject to these reservations, noncompetitive tenders for each issue for $500,000 or less without stated price from any one bidder will be accepted in full at the average price (in three decimals) of accepted competitive bids for the respective issues. Settlement for accepted tenders in accordance with the bids must be made or completed at the Federal Reserve Bank or Branch on November 6, 1975, in cash or other immediately available funds or in a like face amount of Treasury bills maturing November 6, 1975. Cash and exchange tenders will receive equal treatment. Cash adjustments will be made for differences between the par value of maturing bills accepted in exchange and the issue price of the new bills.

Under Sections 454(b) and 1221(5) of the Internal Revenue Code of 1954 the amount of discount at which bills issued hereunder are sold is considered to accrue when the bills are sold, redeemed or otherwise disposed of, and the bills are excluded from consideration as capital assets. Accordingly, the owner of bills (other than life insurance companies) issued hereunder must include in his Federal income tax return, as ordinary gain or loss, the difference between the price paid for the bills, whether on original issue or on subsequent purchase, and the amount actually received either upon sale or redemption at maturity during the taxable year for which the return is made.

Department of the Treasury Circular No. 418 (current revision) and this notice, prescribe the terms of the Treasury bills and govern the conditions of their issue. Copies of the circular may be obtained from any Federal Reserve Bank or Branch.

The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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MEMORANDUM FOR CORRESPONDENTS: October 29, 1975

Treasury Secretary William E. Simon will announce the Treasury Department's decision on whether to reissue the $2-dollar bill at a news conference in Room 4121, Main Treasury, 15th and Pennsylvania Avenues, N.W., Washington, D.C. at 11 a.m. Monday, November 3, 1975.

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The Department of the TREASURY NEWS
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FOR RELEASE ON DELIVERY

STATEMENT OF THE HONORABLE WILLIAM E. SIMON
SECRETARY OF THE TREASURY
BEFORE THE
SUBCOMMITTEE ON ECONOMIC STABILIZATION
HOUSE COMMITTEE ON BANKING, CURRENCY AND HOUSING
THURSDAY, OCTOBER 30, 1975, 9:30 A.M.

Mr. Chairman and Members of this Distinguished Subcommittee:

I appreciate the opportunity to appear before you on this subject of utmost importance. I must commend the members of the Subcommittee for the extremely responsible way in which you have conducted these proceedings. In my three years in Washington I cannot recall a more extensive exploration of issues. You have wisely provided the opportunity for presentation of a wide variety of points of view on these difficult and exceedingly important matters.

As the Committee is aware, these proceedings parallel proceedings now taking place in your counterpart Committee in the Senate. They too have been conducting their proceedings with due regard for the importance of the issues involved. In that connection, I have been particularly struck by the comments, on separate occasions, of two members of the Senate Banking Committee, Senator Edward Brooke of Massachusetts and Senator Joseph Biden of Delaware. In urging that the Senate act with well-considered prudence both of them aptly characterized this decision as perhaps the most important one facing the United States Congress since the Gulf of Tonkin Resolution in 1965. I agree.

The issue facing the Congress today is not simply whether to avert default by New York City. To be sure, if Congress enacts legislation providing Federal financial assistance in amounts sufficient to meet debt service on the City's outstanding obligations, default will be averted. But in the final analysis, the issue presented has far broader implications: Namely, whether our system of financing state and local government credit needs -- a system which has served this country well for more than a century -- will be replaced

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by a system of federal financing and by federal control of fiscal and financial decision-making at the state and local level.

We can talk all we want about strict guidelines; about narrowly drafted legislation; about the importance of meeting an immediate need. But the fact remains that Congress, as representative of the American people, is imbued with an overriding sense of fairness. And what Congress is prepared to do for one city it must be and will be prepared to do for all other units of government in the United States.

There are things that must be done and that can be done at all levels of government with respect to New York City's financial crisis. I have outlined such a program in the past and I will reiterate it in my testimony before the Committee today. Before turning to that, however, I want to highlight a point which I believe to be of paramount importance. I have often said that there are two risks presented by a default: The financial and the psychological. I have often expressed the view that the financial risk can be managed and recent events support that position. But at the same time I have been equally candid about our inability to measure the psychological impact and about our concerns that dire predictions and vigorous rhetoric may compound whatever psychological risks do in fact exist.

Let's look at some of the language which has dominated the debate in both Houses of Congress: "Federal money or Federal troops"; "Catastrophe"; "New York City will go down the drain"; "Too horrible to imagine"; "Major banks will be insolvent." Is there any justification for this phraseology? Can Congress make a decision of this importance, of such far-reaching implications, largely in reliance on this type of analysis? Of course not. Congress and the American people are entitled to the facts, if any, underlying such reasoning. We must consider these issues on the basis of facts and not on the basis of buzz words and rhetoric.

At the same time, it is clear to all that the issue must be resolved promptly; that this crisis has already persisted too long. As I have said before, continued delay and uncertainty increases the psychological risk and may cause the consequences to be more severe. Certainly the potential impact today, or in six weeks, will be greater than if the matter had been resolved three months ago. If New York City had provided for an orderly restructuring of its debt at that time, we would not be facing the same concerns we face today.

A recent experience provides a factual basis for evaluating our judgments -- and I must emphasize that they are judgments -- concerning the impact of a default by New York City. On Friday, October 17, at 9 A.M., $453 million of New York City's short-term notes became due and payable. At that time, New York City had insufficient funds to satisfy these obligations. Moreover, many observers believed that it was quite unlikely that New York City would obtain such funds by the time the banks closed that afternoon. Indeed, even New York officials advised the President of the imminence of default. While New York City ultimately did obtain the funds, what happened that day is a good measure of how our financial markets respond to financial reversals and how the people of the City of New York function under such circumstances.

Let's look at some professional surveys of the marketplace on that fateful Friday:

-- Moody's Bond Survey. "The possibility of a New York City note default last Friday led to brief unsettlement in tax-exempts. Other market sectors, however, showed little reaction."

-- Chase Manhattan Bank Money Market Report. "On Friday, doubt over the timely payment of maturing New York City notes led to some price erosion, but there is still substantial improvements over the week."

-- Business Week. "New York barely escaped default today, but the municipal bond market held essentially firm. This casts some light on the favorite question of bond market analysts: To what extent do the current levels of municipal bond prices already discount default? Alan H. Meltzer of Carnegie-Mellon University thinks that Friday's bond market supports the view that Federal assistance is unnecessary, if the concern is the financial market."

-- John Nuveen and Company. "It is refreshing to note that the market was not totally mesmerized by New York City's problems, but in fact, reacting to events within the money market."

-- Smith Barney & Company. "The key element near term is certainly the New York City situation. One view assumes financial catastrophe; the other that the market has discounted most of the problems. We lean toward the latter view."

These are the views of professionals. But what were the people told? The following day, Saturday, October 18, banner headlines in the New York <u>Times</u> reported "Financial

Markets Disrupted" and a front page story characterized market behavior as "alternately sluggish and chaotic ... A taste of what default by New York City might mean."

For those who turned to the financial pages, a very different picture emerged. In light trading, the stock market declined some 10 points during the period of uncertainty in the morning; recovered on the news that default had been averted, and then fell back 6 points for the day. Hardly disruption. But the damage had been done. Although the Wall Street Journal and others later took the Times to task, a further erosion of public confidence had taken place. When will our leaders recognize that extreme and unsupportable rhetoric can only increase the risks?

I don't believe there is sufficient recognition of the extraordinary performance of the municipal market over the past nine months. In the third quarter alone, State and local governments raised $13.7 billion in bonds and notes to bring the nine-month total to $45 billion. By contrast, only five years ago, in the third quarter of 1970, $8.6 billion was raised. And last week the municipal market continued its vigorous rally. States and cities from throughout the country raised substantial amounts of money at lower interest rates, in some cases significantly lower, than those which have prevailed over the last two months.

Three months to the day after it paid nearly 6 percent for a loan, Maryland borrowed $85 million at 5.3 percent. Is New York City dragging the municipal bond market down? I hardly think so. If I may draw an analogy to Gresham's Law, bad bonds don't make good bonds bad; they make good bonds better, as Maryland and other well-run communities have recently found out.

For the record I shall submit detailed evaluations of activity in the municipal bond market. These evaluations clearly belie the contention so often heard in this Committee and elsewhere in the Halls of Congress that somehow the New York City financial crisis is responsible for devastating the municipal bond market. Nothing could be more incorrect. But I must point out again, the psychological risks cannot be dismissed. Uncertainty can have a very disruptive effect on markets: An early resolution of this matter remains of utmost importance.

In order for this Committee to evaluate the need for legislation, I would urge that you concentrate on several basic questions. What would be the impact on our financial markets if the City is unable to pay its noteholders on time? What impact would it have on the ability of the City to provide essential services?

At the same time, the Committee must ask itself what the price will be for Federal assistance. What is the price the American people will have to pay in terms of higher borrowing costs for all borrowers? What is the price our economy will pay if more marginal borrowers are crowded out of our capital markets? And what is the price our society will pay if the Federal Government takes over the fiscal and financial decision-making process at the State and local level?

In asking if the Federal government should act to prevent default through financial assistance, all these questions must be addressed:

Condition of New York State and Its Agencies

Many times in recent days this Committee has been told that Congress must act to prevent default by New York City because if it fails to act, New York State and its agencies will also default. But to my knowledge, none of the witnesses who have testified in this matter have advised the Congress or anyone else as to why such an event will in fact occur. Each of the agencies of the State are separate and distinct and, ultimately, each will be judged on its own merits.

It is clear to all of us that the State must act and must act promptly to improve the credit of certain of its agencies. With respect to the New York State Housing Finance Agency, the financial community has acted most responsibly in analyzing this agency's financing and in presenting a proposal designed to remedy some of its difficulties. We urge the State to act promptly on these proposals.

With respect to the State itself, the current official estimate of the State's deficit for the fiscal year ending March 31, 1976, is $611 million. New York State should act to reduce that deficit.

The financial difficulties of New York State and its agencies cannot be attributed entirely to New York City. More importantly, a resolution of the financial situation in New York City through Congressional action or otherwise will not cure those financial difficulties. Responsible action must be taken at the State level to prevent an extension of the financial crisis to the State and its agencies.

Again, I must emphasize that we must not be misled by dire predictions and vigorous rhetoric. Our views as to the financial risk notwithstanding, the psychological risk remains a serious concern. The only meaningful solution to the financial crisis which now exists is responsible action at appropriate governmental levels.

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Building a Bridge to the Capital Markets

All levels of government, and the private sector as well, share the responsibility for developing a workable program that will restore New York City's access, and that of the State as well, to the capital markets. What must be done is to build a solid bridge, span by span, over which New York City can return to the private capital markets. In my view, such a program should involve the following elements.

-- First, and foremost, New York City must implement a credible balanced budget plan which provides for the prompt elimination of budget deficits.

The institutional framework is now in place, and the Emergency Financial Control Board and the new Deputy Mayor appear to be operating in concert, devoting all of their resources to implement the fiscal policies necessary to return the City to the market. The plan adopted October 15 represents a very constructive step. It attacks many of the major concerns: Payroll levels will be cut, operating expenses are being removed from the capital budget, capital expenditures are being reduced. At this point, however, there is no clear guidance in other important areas: Levels of health services, employee benefit and retirement programs, the City University. All of these areas must be dealt with if New York City is to be on a sound financial footing.

Expenditure reductions must be accompanied by a continued realignment of the City's management to insure that the tough decisions which have to be made will continue to be made. Until investors are convinced that New York City's management is in control of the City's financial future, there can be no market.

-- Second, during the period of transition to balanced budget operations, the state should provide New York City with a temporary source of additional revenues to meet cash flow requirements in the interim period.

It appears that through the end of this fiscal year, New York City's expenditures not including debt service will exceed its revenues by approximately $700 million according to figures supplied by the City. In addition, New York City will have a peak seasonal cash need amounting to $1.3 billion during the December-March period.

Resources are available to meet these needs. For example, New York State could impose an emergency and temporary tax, perhaps a three-year increase in the state sales tax on a sliding scale 3%, 2%, 1% basis. As the situation improves, these funds can be repaid by New York City. At that point all the people of the State could benefit as repayment by the City would allow a reduction in tax rates to below existing levels.

Alternatively, the City could borrow such funds, with the loans collateralized by assets in employee pension funds.

Let me be clear, I am not suggesting that such methods are the only possibilities. New York State has vast financial resources and there are many potential sources of the necessary funds. But to those who would say that all resources have been exhausted, these are only two examples of what could be done.

-- Third, there must be an orderly proceeding for the restructuring of New York City's debt.

As the President announced yesterday, the Administration is sending up legislation establishing procedures under which large cities could seek the assistance of a Federal court in restructuring their financial obligations. The legislation provides that cities with populations exceeding one million, having the express approval of the state, may petition for court enforcement of a plan to reschedule payments to creditors. Such a petition must be accompanied by an expenditure reduction plan to return the City to a sound fiscal basis.

Within the context of such a proceeding, holders of short-term securities will be required to extend maturities for a reasonable period. In addition, only if necessary, the City's bondholders may be asked to agree to a moratorium on debt service payments for a period of time.

The legislation announced by the President also authorizes the City to issue new certificates of indebtedness, if -- and this is important -- the court approves. These certificates could be granted priority rights to the City's revenue stream and may provide an alternative means of dealing with the cash flow problem I discussed a few moments ago.

Once the threshold of budgetary control has been crossed, these actions can provide the bridge to return New York City to the capital markets. But any comprehensive program of reform must deal with longer-range concerns as well. We in the Federal Government have a clear responsibility with respect to this part of the process.

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-- As a fourth part of the program, the Federal Government must accelerate a comprehensive reexamination of all Federal, State and local relationships. We must determine whether the priorities, practices and procedures of the past in all areas -- welfare, housing, food stamps, medical assistance and the like -- are consistent with the needs of the last quarter of the Twentieth Century.

Specifically, we should review once again our administrative machinery and make whatever changes are necessary to provide state and local governments the full benefits they are entitled to under existing law.

But a comprehensive response requires more action as well. If we determine that large cities and populous states are unfairly disadvantaged under existing formulae or programs, we should consider corrective legislation, if necessary, to remedy whatever imbalances exist.

We must ask whether our assistance programs fulfill their intended purpose, or whether they help people they were not designed to help? Have our programs grown so cumbersome, so abuse-prone, that they are fast losing their base of public support? If so, and if fewer funds are therefore available to help the really needy, the ones who get hurt are the poor themselves.

-- Fifth, we must propose structural improvements in the municipal bond market.

In proposing these changes, we will not have lost sight of the fact that even in these unsettled times the municipal market has served state and local government well.

During September alone, for example, state and local government raised nearly $4.5 billion in tax-exempt bonds and notes, a truly extraordinary performance. And, as shown in a recent Salomon Brothers study, which I shall submit for the record, such funds were raised at a cost not disproportionate to historical levels.

Traditionally, yields on tax-exempt securities, have been, on the average, 30 percent lower than taxable yields. Yield spreads will vary according to quality, maturity, call protection, monetary conditions and similar factors. Moreover, yields will also vary within rating categories.

For example, largely because of the substantial volume of debt outstanding, yields on New York City securities were significantly higher than yields on comparably rated securities of other issuers. The Salomon Brothers study shows that in September, the spread between prime municipals and comparable quality utility issues was squarely on the 30 percent figure.

While the market has performed well, improvements can be made. In recent years an imbalance between supply and demand has developed. Tax-exempt borrowing is at unprecedented levels: Nearly $45 billion of bonds and notes in the first nine months of this year alone. But the growth in demand -- especially from institutions -- has not kept pace. Casualty companies, always large buyers, have had their need for tax-exempt income reduced. And commercial banks, traditionally the largest purchasers of tax-exempts, have cut back their participation substantially, reflecting reduced taxable income as a result of loan losses, leasing activities, and foreign tax credits. In 1969, commercial banks were net purchasers of municipals in an amount equal to 97 percent of new issue volume. For the first six months of this year, their net purchases dropped to 12 percent of new issue volume.

In addition, also as a consequence of these specialized sources of demand, yields in the tax-exempt market tend to rise disproportionately during periods of tight money as banks are forced to commit their limited credit resources to their commercial customers.

Accordingly, to broaden the market, and to effect a reduction in the volume of tax-exempt debt, State and local governments should be afforded the option of issuing debt on a taxable basis, with an appropriate interest subsidy from the Federal Government. Also, tax-exempt debt now issued for nongovernmental purposes -- pollution control and industrial development bonds -- should be issued only on a fully taxable basis, again with appropriate interest subsidies. According to our calculations, these changes should result in a substantial benefit to state and local governments in the form of a broader market for their securities, which could result in lower borrowing costs, at little, if any, expense to the Federal Treasury.

-- Lastly, partially in recognition of the growing participation of the smaller investor in the state and local bond market, we believe the time has come for a federally imposed uniform system of financial accounting and reporting by state and local issuers which sell a substantial amount of securities in our capital markets.

Precipitated by major financial reversals such as the Penn Central bankruptcy, there has been a marked increase in the tendency of investors to restrict themselves to higher grade instruments -- a "flight to quality" to use the terminology of the market. We must satisfy this legitimate interest of the investing public in detailed, accurate and comparable data by requiring complete and accurate disclosure. Such a system of disclosure has helped make our corporate markets the finest in the world. The time has come to extend it to the municipal market as well.

In my view, it is these steps which Congress and the nation must focus upon in dealing with New York City's financial crisis:

-- A sound fiscal policy administered by a realigned management, and including a credible balanced budget;

-- A temporary increase in state assistance;

-- An orderly mechanism for debt restructuring, with the financial community and investors participating in the bridge back to the capital markets;

-- A comprehensive reexamination of Federal, State and local relationships;

-- A broader market for municipal securities; and

-- A uniform financial disclosure system for State and local government.

This is a program designed to attack the causes of the problem at their roots. Unlike the legislative proposals before us today, it is far more likely to return our greatest city to a totally sound fiscal basis.

Proposed Legislation

The legislative approaches before us have a single overriding objective: To prevent default by providing Federal financial assistance in amounts equal to the City's cash needs for operations, capital expenditures and debt service. And each is subject to the same general concerns.

First, any such assistance would involve further expansion of already enormous Federal credit demands, driving up Federal borrowing costs even higher. Because the borrowing costs of all other issuers would rise as well, all Americans would pay the price in the form of higher interest rates, more expensive mortgages and higher prices for goods and services.

Second, the discipline of the market would be lost. Spending would be constrained not by the desire to avoid higher borrowing costs or the loss of credit, but through pervasive Federal fiscal and financial control of local government. As for the principle of home rule that is so fundamental to our system of government in the United States, I would only note that any entity that gives up its ability to make its own financial decisions has basically lost its power to rule.

Guarantees and Insurance

There is absolutely no difference between a guarantee program and an insurance program. Either would involve a commitment by the Federal Government to meet debt service requirements in the event the issuer is unable or unwilling to make such payments out of its own revenue sources. And once provided, a guarantee could not be withdrawn if, for example, the issuer failed to meet the fiscal conditions of the program. The government's obligation under a guarantee program would be to the investor, not to the issuer.

Impact on Capital Markets

It has been stated altogether too often before this Committee that New York City is not asking for a bailout, that it is not even asking for a loan, but it is asking merely for a Federal guarantee and that such a guarantee would not cost the American taxpayers one cent. Nothing could be more incorrect.

No aspect of this debate troubles me more than the continuous suggestions that the solution is free. Too often, the "free lunch syndrome" dominates decision-making at all levels of society and government. Well, ladies and gentlemen, let me say again--as I have many times--there is no such thing as a free lunch.

I don't care how ingenious the disguise may be--call it a guarantee, insurance, re-insurance or what you will-- the fact of the matter is that it is borrowing. And we will pay the price, not only in the future, but right away.

Any expansion of Federal credit--including a federally guaranteed municipal bond--would further strain our over-burdened capital markets. Federal borrowing costs would rise and, since our borrowing rate establishes a benchmark in the marketplace, the borrowing costs of all other issues would rise as well. And if guaranteed bonds retained the tax-exempt feature, the impact on unguaranteed municipal issuers would be especially direct and could be severe.

Such inflationary forces would also enhance the flight to quality. Yield differentials between the stronger and the weaker credits, are at record highs: Recently the spread between A and Baa industrial bonds has been as high as 200 basis points, double the 1974 figures and four times greater than the 1971-73 average. Additional Federal credit in the market could cause these spreads to widen further.

To repeat, for the American people these are the real costs that would be incurred with a guarantee program: The cost of higher interest rates, higher mortgages, more expensive products, and the like. Very high costs indeed.

Too often, when we concern ourselves with the problems of the municipal bond market we tend to forget that this market is not entirely distinct, but is instead an integral part of our capital market structure as a whole. And the same things that are happening in our capital markets as a whole are happening in the municipal market. Higher rates, shorter maturities: These are the concerns the nation's Mayors brought to the President and to the Joint Economic Committee two weeks ago. But they misplaced the blame. The blame primarily lies not with New York City, but with inflation, caused by massive continuing Federal deficits and the substantial new Federal borrowing required to finance them. The proposals before us today would only exacerbate these problems.

Fiscal Restraint

Equally great are the potential costs imposed by these programs on fiscal and financial decision-making at the State and local level. Like all borrowers, a State or local government's access to credit depends upon its ability to persuade potential lenders that its financial affairs are such that the lender can reasonably expect to be repaid. A Federal guarantee would have the effect of removing this element of concern on the part of the lender and thus have the corresponding effect of removing the market imposed restraints on the borrower.

The only effective substitute for the restraints of the marketplace would be direct Federal control over the budgets of those local governments that participated in Federal guarantee programs. While some have suggested the interposition of State control, I seriously doubt whether it would provide a viable alternative. There would be little reason for a State agency not to yield to the same pressures as a local government in the absence of discipline from the market or from the Federal managers.

Federal control of fiscal and financial affairs at the local level presents grave practical and philosophical difficulties. This is not a dispute between liberals and conservatives, but rather simply a question of the right of citizens to be governed by their duly elected local leaders rather than by Federal bureaucrats.

We would have to create a new bureaucracy simply to concoct and enforce the guidelines as to local priorities we here in Washington would be imposing on the Governments of the nation. We would be confronted with the sorry spectacle of duly-elected local officials lining up outside my door, attempting to persuade me that they were carrying out their responsibilities in a satisfactory fashion. We would, in short, be contravening constitutionally-imposed principles of Federalism; principles which lie at the heart of the structure of government in this nation.

Thousands, perhaps tens of thousands, of governments would resist this intrusion into local affairs. And they would be absolutely right. But in the final analysis, theirs would be a Hobson's Choice: Submit to Federal control or pay the price of independence in the bond markets.

Finally, there are those who say that New York City is a special case; that New York has unique problems not faced by other cities. But let's look at the facts:

--median family income in New York City is just about at the national average;

--the median income of minority families is nearly \$2,000 higher than the national average;

--the percentage of the population on welfare is lower than that of Newark, Philadelphia, Washington, Baltimore or St. Louis.

New York's burden has come, not from caring for the poor, but from subsidizing the middle class through massive municipal payrolls and fringe benefits, through free tuition at the City University and similar programs.

Accordingly, to those who would say that New York is unique, that helping New York will not obligate us to help other cities, I say we are already obligated. We are obligated to local officials throughout the country who have risked their careers by insisting on fiscal restraint. Would financing the deficits of New York City be consistent with our obligation to them? And can we really draw the line at New York City? I doubt it. Assistance to one City would create an intolerable precedent for the future.

None of us can assess with any degree of precision the contribution the division of governmental authority

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called for by the Constitution has made to the quality of life in this country. But I doubt our society would be as heterogeneous, as tolerant of diversity, as responsive to local needs if all basic decisions were made here in Washington.

Comparison with Existing Programs

It is such considerations which plainly distinguish the pending bills from programs such as FDIC or FHA insurance. It is altogether appropriate to require that all of the nation's banks be subject to the same operating standards and be subject to consistent and detailed Federal supervision and regulation. It is equally appropriate that a citizen seeking the assistance of the Federal Government in obtaining a mortgage disclose fully his financial situation and open the property he or she desires to purchase to extensive Federal scrutiny.

Imposing uniform standards on State and local governments is plainly an entirely different matter. Each political subdivision in this nation has unique needs. And each is led by people selected for the job by an electorate which believed that such people could best translate the needs of the community into effective governmental decisions. Yet any program of financial assistance would require bureaucrats in Washington to supervise these decisions and reverse them if necessary, irrespective of the wishes of the local electorate. It is one thing to regulate a corporation. Under our democratic system, it is quite another to supervise and control the affairs of local governments.

In short, State and local government have a special status in our Federal system. The proposals for Federal financial assistance now pending before this Committee would, of necessity, require that such special status be ended.

Unguaranteed Participation

Chairman Reuss in this House and Chairman Proxmire in the Senate have proposed legislation which would condition Federal assistance on private sector agreement to provide a specified percentage of the aggregate financial need on an unguaranteed basis. In addition, Senator Proxmire's measure would require the State to provide the City with substantial additional revenues, through new taxes or other means. These proposals correctly recognize that the prime beneficiaries of Federal action to prevent default are not the people of New York City, but investors and politicians. Although the burden on the Federal Treasury would be lessened somewhat under these proposals, all of the concerns I have just expressed apply equally to these proposals.

Guarantees, insurance, loans--each of these proposals has serious implications for the condition of our capital markets, would eliminate market restraints on spending at the State and local level, and could erode the traditional autonomy of these levels of government over their fiscal and financial affairs.

Impact of Default

I have concentrated today on a variety of approaches to the financial situation in New York City and New York State. I believe the approach I have suggested is desirable and workable. I cannot support the approaches--guarantees and similar forms of assistance--suggested to this Committee. To complete the analysis, however, it is necessary to discuss the consequences if none of the approaches is adopted.

Necessary Concepts

To set the framework for my analysis of the impact of default, it is important to define some relevant terms and concepts. I sense that the dialogue concerning the issue has been hampered by confusion over the meaning and import of certain key words. First, there is "insolvency" which, simply stated, means that a person or a city has current obligations which exceed its available funds. "Default" is a technical legal term describing a debtor's refusal or inability to pay a creditor who has demanded payment. "Bankruptcy" describes a legal proceeding--provided for in the Constitution--under which an insolvent party in default turns over to a court the job of deciding how his financial resources will be apportioned among creditors.

In looking at default and bankruptcy, we should also draw a distinction between the options available in the event of a corporate default and those available with respect to a municipal default. If a corporation defaults and is subsequently brought under the jurisdiction of a federal bankruptcy court, one option--albeit often not the most desirable one--is liquidation: The sale of assets to satisfy the claims of creditors and the subsequent disappearance of the corporation as a continuing entity. Both common sense and Constitutional principles preclude such an option with respect to municipal defaults.

In this respect, a default by a state or local government is closely analogous to a default by an individual person. In either case, if a bankruptcy proceeding ensues, resources essential to the maintenance of life in the one case and essential services in the other, are protected from the demands of creditors.

It is important to reemphasize this point: If New York City defaulted, it would continue to exist and to operate. Tax payments, Federal and State assistance payments and other sources of revenue would continue to flow. Indeed, the growth in New York City's tax revenues continues to outpace virtually every other large city: The growth rates in Los Angeles, San Francisco and Boston, for example, are substantially lower. Over the last five years alone, general fund and real estate taxes have increased from $4.6 billion to $7 billion. While much of this new taxation may have been counter-productive by driving businesses and residents out of the City, the fact remains that we cannot attribute New York City's difficulties to an inability to generate revenues. And while there is a cash flow shortage which must be met, as the President indicated, services essential to life and property will be provided.

In short, it is essential not to confuse the legal and idiomatic meanings of the term bankruptcy. In common parlance, we may use bankruptcy to define a condition devoid of substance or resources. By that definition, New York has not been, is not now, and will not be bankrupt.

However, a Federal debt restructuring proceeding is an appropriate solution for dealing with New York City's creditors in an orderly way.

Analysis

My views on the impact of a potential default have not changed materially. I have always believed that a default would be undesirable. I have always believed that a default should be avoided by any appropriate means. But putting aside for a moment the desirability of avoiding default, I cannot conclude that a default would devastate our financial markets or our economy.

At the same time, I have often underscored the importance of psychological factors and our inability to predict psychological reactions with any certainty. We have been carefully monitoring the marketplace daily and have noted the developing psychological impact. Restraint is of utmost importance: Dire predictions of impending doom could well become self-fulfilling.

Today, the muncipal market is proceeding along two tracks. On the one hand, the market is in the midst of its most vigorous rally of the year. At the same time the doomsayers are promising collapse as a consequence of the New York crisis, the market is going the other way: Interest costs have dropped one-half percent in three weeks.

I remain deeply concerned, however, about the confidence factor. How long can we stand the daily battering, the consistent misinformation generated by those who will stop at nothing to obtain Federal assistance. While my overall views remain the same, there is little question that such rhetoric will make the impact of default more severe than it otherwise would have been.

My views on the overall question of the impact of default are fully expressed in my testimony before the Joint Economic Committee and other committees and I do not need to repeat them in detail here. I will submit all of my testimony on this subject for the record. I do want to concentrate and expand upon one particular concern: The impact of a potential default on the ability of other State and local governments to raise necessary funds in the municipal market.

Earlier in my testimony, I noted that municipal governments are facing the same pressures as all other borrowers: A diminishing supply of capital at higher and higher rates caused primarily by inflation and the growing Federal usurpation of the supply of credit in this country. I mentioned that within the municipal market itself there are structural problems which need to be addressed as State and local capital requirements grow faster than the demand for tax-exempt securities. I have also noted that all investors are increasingly sensitive to quality considerations and are demanding more and more evidence of financial soundness. These phenomena will continue to play an important role in the market, regardless of what happens to New York City.

Perhaps the most important factor in today's market is uncertainty, a psychological factor which markets do not tolerate well. A number of intermediaries and investors are, we understand, refusing to commit funds to the market--thus impairing the borrowing ability of many State and local governments--until the New York City situation is resolved. New York City's difficulties have been the major factor in the uncertainty and have intensified investor concern with quality. But New York's financial crisis did not create the other problems besetting the market, and an end to that crisis will not make them go away.

Markets have a tendency to discount future events and a potential New York City default has been discounted to a significant degree in the form of higher yields and shifts in quality preferences. If default actually occurs, a possible further shift in quality preferences could influence the ability of credits which are perceived to be weak to raise funds in the capital markets. By contrast, the stronger credits may well benefit as investors' preferences shift even further in the direction of the higher grade issues.

Let's look at the way the municipal market has performed in the face of a possible default by New York City and in the face of all the uncertainty that possibility has engendered. As I indicated earlier, many local governments throughout the country--including cities in the Northeast and in New York State itself--have raised funds at reasonable rates. In the last three weeks alone, average yields in the municipal market--that is, the borrowing costs of state and local governments--have dropped a full one-half percentage point. And yields on the higher grade securities of the better-run issuers have dropped even further. All in all, the market has performed extremely well.

It is such market performance that leads me to the judgment that a default by New York City will not mean that other cities throughout the country will not have access to credit. All cities are facing investor demands for more and better disclosure and a default by New York City will not still those demands. But no other city has had a cumulative deficit like New York City's and thus none must borrow simply to meet operating needs from year to year. To the extent other cities must borrow within a fiscal year to deal with seasonal cash flow variations, I cannot conclude that a default will materially impair their ability to do so. The market has and should continue to distinguish between cities which have the money to pay their debts and those that do not. To repeat, bad bonds do not make good bonds bad; they make good bonds better.

In asking ourselves what the impact of a default would be, we must also ask the correlary question of what could be the impact of various mechanisms to avoid default. If, for example, New York City were able to avoid default by implementation of the plan discussed at the beginning of my testimony, I believe that the result would be a renewed sense of faith in the ability of the State and local government sector and our financial institutions to deal with even the most severe problems in a responsible manner.

If, on the other hand, default were to be avoided by a Federal assistance program, the reaction could be more complex. If default were avoided only through the Federal government paying New York City's debts, it would not signify that New York City or any other State or local government was able to carry out its financial obligations. Just the contrary would be the case. Meanwhile, there could be far more incentive for State and local governments to embark on more spending programs, irrespective of whether resources were available to finance them. The discipline built into the present system would be lost.

And even if the assistance program were limited to New York City, its impact would be felt throughout the country. Issuers and investors would come to believe that every municipal security -- or certainly those of major borrowers -- in effect carried the moral obligation of the United States, even without a guarantee in advance. What the Federal government would do for New York, all would believe, it would necessarily do for any other jurisdiction which became unable to meet its obligations.

But perceptive investors would recognize the fundamental change in our system of finance and would see the risks presented. The inflationary expectations generated by the actual and potential expansion of Federal credit involved would serve to accelerate some of the adverse trends we have seen in the markets over the recent past. Investors would become even more wary of long-term commitments and would demand even higher yields on the commitments which are made. The ability of all sectors of the economy to finance investments in our future growth could be further impaired.

This Committee faces some difficult choices. The risks of a default, given the psychological aspect, are in the final analysis, unknown and unknowable. My own judgment--and I must emphasize the highly subjective nature of any judgment in this area--is that such risks should be manageable. Moreover, as I have indicated in my testimony today, the legislative proposals present a series of concerns which outwiegh the risks as I perceive them. I would urge the Committee to concentrate its resources and its influence on approaches to the problem which will restore confidence in the fiscal and political integrity of the State and local governmental sector.

Mr. Chairman, it has been more than seven months since the market closed for the securities of New York City. For this entire period, the citizens of the greatest city in the world--its financial, industrial and cultural hub--have lived from crisis to crisis. As one with deep personal and professional ties to New York City, I have great compassion for the plight of the citizens of New York and I share their determination to achieve a prompt and proper end to the crisis.

Over this period much in the way of laudable progress has been made. An "untouchable" expenditure increase for fiscal year 1975-76 was pared somewhat. The municipal payroll has been reduced by some 31,000 employees. The cumbersome overlay of bureaucratic structures has been partially reorganized and financial professionals are now playing an increasingly important role in the affairs of the City.

If this degree of progress has been made, one may legitimately ask, why hasn't the market reopened to the City? I am afraid the answer lies in timing. Each of these steps, while laudable in and of itself, invariably came too late.

It is difficult to state precisely what actions would have reopened the market at any given point in time. But it must be clear to all that what would have reopened the market in April would no longer do the job in June. And what would have been adequate in June was insufficient in August. In short, throughout these long and enervating months, events and demands consistently outdistanced actions.

Another important point emerges from this troublesome history. There can be no doubt that Federal financial assistance at any point along the way would have stopped the reform process dead in its tracks. We need only look at what occurred when MAC was created in early June. For six weeks, virtually nothing in the way of reforms was accomplished. In late June, the need to obtain legislative approval of the City's budget caused a brief flurry of activity--announcements of lay-offs, hospital and fire house closings. But as the garbage piled up over the Fourth of July weekend, most lay-offs were rescinded; and the closing orders were largely ignored.

It was not until it became clear that MAC would be unable to borrow in August that the process of reform began anew. Each new deadline was faced with more strident demands for Federal assistance. And, after such assistance was again refused, the City and the State managed to take another hesitant, painful step in the right direction.

At the end of August, after nearly six months of crisis, the first meaningful data regarding the City's finances was released. While subsequent events have revealed that even such data was inaccurate and inadequate, at least a benchmark with which to measure the accomplishments of the past and the challenges of the future had been established. Again I ask the inevitable question:

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Would such actions have taken place if Federal assistance had been promised or provided?

Much has been done, but much more needs to be done:

--The plan for the prompt elimination of the budget deficit must be fully implemented;

--In that regard, the State must act to provide a temporary supplement to the City's existing revenue base;

--Capital expenditures must be reduced severely and operating expenses must be fully eliminated from the capital budget;

--New revenue sources must be explored. For example, the Environmental Protection Agency has called for new and increased tolls on the City's bridges for environmental reasons. Why not for revenue reasons as well?

--The drain on City revenues from the City University must be halted, either through State takeover or through reasonable tuition charges;

--The Health and Hospitals program, with its massive payroll and 25% vacancy rate, should be scaled down;

--More economically sound standards for future pension benefits must be implemented;

--The city's accounts must be fully conformed to acceptable accounting principles;

--Reform of the City's management structure must be completed;

--Steps must be taken to restructure the City's debt.

If these things are done, and the market does not reopen, is default the only solution? In recent weeks and again today, I have expressed the view that the financial risks presented by a default can be managed and, in such circumstances, the impact need only be temporary and manageable. At the same time, I have been equally candid about our inability to measure the psychological impact. Let me repeat once again: While the market has performed

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well to date, it can only stand for so long the consistent battering--the dire predictions and vigorous rhetoric--which the proponents of Federal assistance have brought to bear.

The time has come, to concentrate all of our efforts on restoring our greatest city to fiscal integrity. I have said many times that fiscal integrity is easy to lose and hard to recover. As we proceed through this difficult period in our history, I can only hope that the travails of New York City will have some impact on our attitudes as to the proper role of government in our society. As the President said yesterday, what New York City has learned in the past seven months is a valuable lesson for us all. As we proceed with legislative consideration of the City's financial crisis, let us not ignore this important message.

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The Department of the TREASURY NEWS
WASHINGTON, D.C. 20220 TELEPHONE 964-2041

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MEMORANDUM FOR CORRESPONDENTS: October 31, 1975

A Treasury Department news conference on the decision whether to reissue the $2-dollar bill will begin at 10:30 a.m., Monday, November 3, in Room 4121 instead of 11 a.m..

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WS-448

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FOR IMMEDIATE RELEASE October 29, 1975

RESULTS OF AUCTION OF 7-YEAR TREASURY NOTES

The Treasury has accepted $2.5 billion of the $4.4 billion of tenders received from the public for the 7-year notes, Series C-1982, auctioned today.

The range of accepted competitive bids was as follows:

Lowest yield	7.87% 1/
Highest yield	7.95%
Average yield	7.92%

The interest rate on the notes will be 7-7/8%. At the 7-7/8% rate, the above yields result in the following prices:

Low-yield price	100.027
High-yield price	99.603
Average-yield price	99.762

The $2.5 billion of accepted tenders includes 15% of the amount of notes bid for at the highest yield and $0.4 billion of noncompetitive tenders accepted at the average yield.

In addition, $0.4 billion of tenders were accepted at the average-yield price for Government accounts and Federal Reserve Banks.

1/ Excepting 5 tenders totaling $2,941,000

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FOR IMMEDIATE RELEASE October 30, 1975

RESULTS OF TREASURY BOND AUCTION

The Treasury has accepted $1.0 billion of the $2.2 billion of tenders received from the public for the 24-year 9-month 8-3/8% bonds auctioned today. The range of accepted competitive bids was as follows:

	Price	Approximate Yield To First Callable Date	Approximate Yield To Maturity
High	101.73	8.19%	8.21%
Low	101.34	8.23%	8.24%
Average	101.50	8.22%	8.23%

The $1.0 billion of accepted tenders includes 17 % of the amount of bonds bid for at the low price, and $0.1 billion of noncompetitive tenders accepted at the average price.

In addition, $0.2 billion of tenders were accepted at the average price for Governement accounts and Federal Reserve Banks.

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FOR IMMEDIATE RELEASE OCTOBER 31, 1975

SIDNEY COX NAMED
DEPUTY FISCAL ASSISTANT SECRETARY

Secretary of the Treasury William E. Simon today announced the appointment of Sidney Cox, a Treasury career official, as Deputy Fiscal Assistant Secretary of the Treasury. He succeeds David Mosso, who has been appointed Fiscal Assistant Secretary of the Treasury.

Mr. Cox is a native of Portland, Maine and attended schools in that city. He received his Bachelor's degree, with a major in mathematics, from the George Washington University and continued at that University for graduate studies in economics.

Mr. Cox served in the Navy during World War II as a Fighter Director Officer on an escort carrier.

Mr. Cox's entire work career has been with the Treasury. He has held a number of positions including Deputy Commissioner of Accounts for Deposits and Investments, and immediately prior to his present appointment, served as Assistant Fiscal Assistant Secretary.

Mr. Cox has received the Department's Meritorious Service and Special Achievement Awards.

He is married to the former Linda Sue Bryson of Franklin, North Carolina. They have two daughters, Nancy (Mrs. Patrick Cody) and Evelyn, and reside in Silver Spring, Maryland.

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